

The Medical University of South Carolina

Charleston, SC

Audited Financial Statements
For the Year Ended
June 30, 2000

State of South Carolina



Office of the State Auditor

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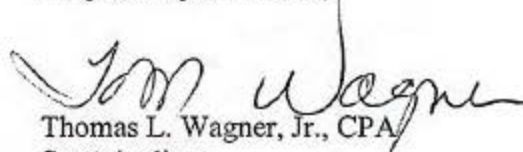
December 8, 2000

The Honorable Jim Hodges, Governor
and
Members of the Board of Trustees
The Medical University of South Carolina
Charleston, South Carolina

This report on the audit of the financial statements of The Medical University of South Carolina for the fiscal year ended June 30, 2000, was issued by Rogers & Laban, PA, Certified Public Accountants, under contract with the South Carolina Office of the State Auditor.

If you have any questions regarding this report, please let us know.

Respectfully submitted,


Thomas L. Wagner, Jr., CPA
State Auditor

TLWjr/cwc



ROGERS & LABAN, PA

CERTIFIED PUBLIC ACCOUNTANTS AND FINANCIAL CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

Mr. Thomas L. Wagner, Jr., CPA,
State Auditor
State of South Carolina
Columbia, South Carolina

We have audited the accompanying basic financial statements of The Medical University of South Carolina (the University), Charleston, South Carolina as of June 30, 2000, and for the year then ended as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1 to the basic financial statements, the accompanying financial statements of The Medical University of South Carolina are intended to present the financial position, changes in fund balances, current funds revenues, expenditures, and other changes and the results of operations and cash flows of only that portion of the funds of the State of South Carolina that is attributable to the transactions of the University. The financial statements referred to above include the financial activities of the following component units of the University: Charleston Memorial Hospital; University Medical Associates of The Medical University of South Carolina; Pharmaceutical Education and Development Foundation of The Medical University of South Carolina; Medical University of South Carolina Foundation for Research Development; Medical University Facilities Corporation and the Medical University Hospital Authority. These financial statements are not intended to present fairly the financial position and results of operations of the State of South Carolina and/or its other agencies, institutions, departments or funds in conformity with generally accepted accounting principles.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of The Medical University of South Carolina at June 30, 2000, the changes in fund balances, the current funds revenues, expenditures, and other changes and the results of operations and the cash flows of its component units for the year then ended in conformity with generally accepted accounting principles.

As discussed in Note 23, effective July 1, 1999 the University implemented accounting changes regarding functional category classification of certain expenditures and the revenue classification for amounts received from private/nongovernmental sources and began capitalizing internal-use computer software costs. Also, as discussed in Note 23, management discovered that certain errors were made in the applications of accounting principles resulting in the over and under reporting of assets as of June 30, 1999 and that certain expenditures of the University were misclassified in prior years. The changes have been accounted for as prior period adjustments and the prior year's comparative totals have been restated.

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These basic financial statements exclude the Health Science Foundation from the reporting entity because the University is not financially accountable for this organization. As part of its affiliated organizations project, the Governmental Accounting Standards Board is currently studying other circumstances under which organizations that do not meet the financial accountability criteria and would be included in the financial reporting entity.

Our audit was made for the purpose of expressing an opinion on the basic financial statements taken as a whole. The accompanying supplemental financial schedules as of and for the year ended June 30, 2000, listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such additional information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The information presented in the Introductory and Statistical Sections is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied to the audit of the basic financial statements and, accordingly, we express no opinion on it.

Rogers & Lalan, PA

November 4, 2000

BALANCE SHEET

UNIVERSITY FUNDS AND DISCRETELY PRESENTED COMPONENT UNITS

June 30, 2000

(with totals at June 30, 1999)

	Component Units												Totals -	
	Current Funds		Loan Funds	Endowment and Similar Funds	Plant Funds	Agency Funds	Charleston Memorial Hospital	University Medical Associates	Medical University Facilities Corporation	Pharmaceutical Education and Development Foundation	MUSC Foundation for Research Development	Medical University Hospital Authority	Memorandum Only	
	Unrestricted	Restricted											2000	1999 Restated
ASSETS														
Cash and cash equivalents	\$ 46,751,678	\$ 2,086,593	\$ 1,649,769	\$ 915,571	\$ 84,216,198	\$ 247,569	\$ 2,052,494	\$ 27,181,124	\$ 3,320,113	\$ 39,213	\$ 2,646,725	\$ 2,083,333	\$ 173,190,380	\$ 96,921,271
Investments	-	-	-	-	-	-	-	5,546,808	529,168	-	7,895,965	-	13,971,941	20,795,298
Accounts receivable:														
Patients	102,536,142	-	-	-	-	-	3,794,770	45,682,069	-	-	-	-	152,012,981	164,507,501
Less allowances	(38,070,351)	-	-	-	-	-	(2,803,587)	(25,734,120)	-	-	-	-	(66,608,058)	(65,225,353)
Medicare and Champus cost reimbursements, net	183,205	-	-	-	-	-	233,036	-	-	-	-	-	416,241	116,279
Students	1,557,328	-	-	-	-	-	-	-	-	-	-	-	1,557,328	907,105
Other	1,348,743	-	-	-	-	1,265,627	344,826	211,679	-	-	-	-	3,170,875	4,237,227
Grants and contracts receivable:														
Federal government	-	10,405,435	-	-	-	-	-	-	-	-	-	-	10,405,435	11,599,641
Other	-	462,420	-	-	-	-	-	-	-	578,190	915,300	-	1,955,910	1,715,188
Accrued interest receivable	127,012	27,913	17,032	-	906,489	-	30,013	26,251	5,359	-	119,389	-	1,259,458	547,883
Capital improvement bond proceeds receivable	-	-	-	-	15,278,339	-	-	-	-	-	-	-	15,278,339	7,687,379
Inventories	11,043,918	-	-	-	-	-	374,238	-	-	51,024	-	-	11,469,180	10,734,479
Student loans receivable (less allowance for doubtful accounts of \$55,000)	-	-	12,327,457	-	-	-	-	-	-	-	-	-	12,327,457	12,356,243
Loan participation deposit	-	-	31,000	-	-	-	-	-	-	-	-	-	31,000	31,000
Due from other funds	8,737,788	-	-	-	-	-	-	-	-	-	-	-	8,737,788	25,000,000
Due from The Medical University of South Carolina	-	-	-	-	-	-	-	5,467,779	-	-	212,061	-	5,679,840	-
Due from Charleston Memorial Hospital	3,817,658	-	-	-	-	-	-	270,767	-	-	-	-	4,088,425	12,022,164
Due from University Medical Associates	-	-	-	-	-	-	-	-	-	-	-	2,916,667	2,916,667	6,286,861
Due from Pharmaceutical Education and Development Foundation	285,776	-	-	-	-	31,297	-	2,370,077	-	-	-	-	2,687,150	2,251,563
Due from MUSC Foundation for Research Development	36,296	5,567,748	-	-	-	7,767	-	8,750	-	-	-	-	5,620,561	9,460,375
Due from Medical University Facilities Corporation	-	-	-	-	421,517	-	-	-	-	-	-	-	421,517	402,433
Capital lease receivable from The Medical University of South Carolina	-	-	-	-	-	-	-	-	26,091,690	-	-	-	26,091,690	26,966,989
Prepaid items	2,871,804	5,688	-	-	-	-	522,887	16,404,975	-	65,339	45,778	-	19,916,471	21,047,138
Investments in partnerships	-	-	-	-	-	-	-	3,622,477	-	-	-	-	3,622,477	7,029,782
Land and land improvements	-	-	-	-	21,704,202	-	-	31,218	-	-	-	-	21,735,420	21,735,420
Buildings and leasehold improvements	-	-	-	-	382,453,928	-	2,132,848	55,843,962	-	6,793,955	21,471	-	447,246,164	412,208,212
Furniture and equipment	-	-	-	-	161,085,116	-	4,433,853	10,034,335	-	1,727,885	461,911	-	177,743,100	169,957,197
Computer software	-	-	-	-	1,176,822	-	-	944,129	-	-	76,813	-	2,197,764	864,801
Library books, periodicals, and other materials	-	-	-	-	15,037,883	-	-	-	-	-	-	-	15,037,883	14,043,723
Accumulated depreciation and amortization	-	-	-	-	(235,364)	-	(3,244,061)	(12,241,517)	-	(733,358)	(132,523)	-	(16,586,823)	(14,277,669)
Construction in progress	-	-	-	-	20,993,410	-	-	-	-	332,868	-	-	21,326,278	31,626,283
Intangible assets	-	-	-	-	-	-	-	5,640,752	-	-	-	-	5,640,752	5,803,605
Bond and note issuance costs	-	-	-	-	-	-	-	5,638,177	356,900	-	-	-	5,995,077	2,042,606
Accumulated amortization	-	-	-	-	-	-	-	(1,762,684)	(81,819)	-	-	-	(1,844,503)	(1,327,908)
Other assets	-	-	-	-	-	-	-	449,308	-	-	-	-	449,308	26,923
Total assets	\$ 141,226,997	\$ 18,555,797	\$ 14,025,258	\$ 915,571	\$ 703,038,540	\$ 1,552,260	\$ 7,871,317	\$ 145,636,316	\$ 30,221,411	\$ 8,855,116	\$ 12,262,890	\$ 5,000,000	\$ 1,089,161,473	\$ 1,020,101,639

Continued on next page

BALANCE SHEET (Continued)

UNIVERSITY FUNDS AND DISCRETELY PRESENTED COMPONENT UNITS

June 30, 2000

(with totals at June 30, 1999)

Component Units															
Current Funds		Loan Funds	Endowment and Similar Funds	Plant Funds	Agency Funds	Charleston Memorial Hospital	University Medical Associates	Medical University Facilities Corporation	Pharmaceutical Education and Development Foundation	MUSC Foundation for Research Development	Medical University Hospital Authority	Totals - Memorandum Only			
Unrestricted	Restricted											2000	1999 Restated		
LIABILITIES AND FUND EQUITY															
Liabilities:															
Accounts payable	\$ 21,333,649	\$ 1,079,358	\$ -	\$ -	\$ 2,232,218	\$ 422,857	\$ 574,853	\$ 3,643,684	\$ -	\$ 307,712	\$ 286,904	\$ -	\$ 29,881,235	\$ 20,069,774	
Retainages payable	-	-	-	-	693,873	-	-	-	-	-	-	-	693,873	480,072	
Accrued payroll and related liabilities	10,410,406	471,720	-	-	-	-	447,346	2,986,464	-	-	-	-	14,315,936	15,149,477	
Accrued leave and related liabilities	31,018,664	-	-	-	-	-	756,582	3,537,885	-	-	-	-	35,313,131	34,226,067	
Accrued interest payable	231,087	-	-	-	4,058,911	-	-	369,505	800,275	-	-	-	5,459,778	3,546,192	
Cost reimbursement refund payable, net	-	-	-	-	-	-	-	-	-	-	-	-	-	153,988	
Deferred revenues	1,563,874	-	-	-	-	-	-	-	-	144,410	4,324,138	-	6,032,422	2,198,305	
Due to other funds	8,737,788	-	-	-	-	-	-	-	-	-	-	-	8,737,788	25,000,000	
Due to The Medical University of South Carolina	-	-	-	-	-	-	3,817,658	-	421,517	317,073	5,611,811	-	10,168,059	27,491,301	
Due to Charleston Memorial Hospital	-	-	-	-	-	-	-	-	-	-	-	-	-	626,674	
Due to University Medical Associates	4,235,683	269,234	-	-	-	962,862	270,767	-	-	2,370,077	8,750	-	8,117,373	2,305,421	
Due to MUSC Foundation for Research Development	-	212,061	-	-	-	-	-	-	-	-	-	-	212,061	-	
Due to Medical University Hospital Authority	-	-	-	-	-	-	-	2,916,667	-	-	-	-	2,916,667	-	
Deposits held for others	-	-	-	-	-	166,541	-	-	-	-	-	-	166,541	364,540	
Pension plan payable	-	-	-	-	-	-	-	1,780,034	-	-	-	-	1,780,034	1,719,113	
Interest rate swap liability	-	-	-	-	-	-	-	1,850,000	-	-	-	-	1,850,000	-	
Other liabilities	1,417,202	-	54,648	-	-	-	134,000	644,489	-	3,179,882	-	-	5,430,221	5,861,262	
Notes payable	9,240,578	-	-	-	8,699,044	-	-	22,376,202	-	200,000	-	5,000,000	45,515,824	32,228,374	
Bonds payable	-	-	-	-	149,260,000	-	-	-	12,059,000	-	-	-	161,319,000	89,700,000	
Certificates of participation payable	-	-	-	-	-	-	-	-	15,690,000	-	-	-	15,690,000	16,315,000	
Direct note obligations	-	-	-	-	-	-	-	101,750,000	-	-	-	-	101,750,000	95,000,000	
Deferred loss on refunding of debt	-	-	-	-	-	-	-	(1,223,564)	-	-	-	-	(1,223,564)	-	
Accumulated amortization	-	-	-	-	-	-	-	27,228	-	-	-	-	27,228	-	
Obligations under capital leases	-	-	-	-	956,391	-	-	1,631,882	-	6,747,902	-	-	9,336,175	10,466,452	
Structured legal settlement	-	-	-	-	-	-	-	4,200,000	-	-	-	-	4,200,000	-	
Capital lease payable to Medical University	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Facilities Corporation	-	-	-	-	26,091,690	-	-	-	-	-	-	-	26,091,690	26,966,989	
Total liabilities	88,188,931	2,032,373	54,648	-	191,992,127	1,552,260	6,001,206	146,490,476	28,970,792	13,267,056	10,231,603	5,000,000	493,781,472	409,869,001	
Fund equity:															
Retained earnings (deficit)	-	-	-	-	-	-	-	(9,935,113)	(786,744)	-	-	-	(10,721,857)	(7,763,871)	
Retained earnings reserved	-	-	-	-	-	-	1,870,111	-	-	-	-	-	1,870,111	1,870,111	
Retained earnings reserved for debt service	-	-	-	-	-	-	-	9,080,953	2,037,363	-	-	-	11,118,316	10,907,341	
Net assets:															
Unrestricted (deficit)	-	-	-	-	-	-	-	-	-	(4,411,940)	1,896,871	-	(2,515,069)	(203,679)	
Temporarily restricted	-	-	-	-	-	-	-	-	-	-	134,416	-	134,416	237,090	
Fund balances:															
Restricted	-	16,523,424	1,300,212	915,571	21,744,636	-	-	-	-	-	-	-	40,483,843	65,241,980	
Unrestricted:															
Designated for capital projects	-	-	-	-	4,532,512	-	-	-	-	-	-	-	4,532,512	1,799,088	
Undesignated	53,038,066	-	179,425	-	4,823,803	-	-	-	-	-	-	-	58,041,294	97,804,728	
U. S. government grants refundable	-	-	12,490,973	-	-	-	-	-	-	-	-	-	12,490,973	12,115,937	
Net investment in plant	-	-	-	-	479,945,462	-	-	-	-	-	-	-	479,945,462	428,223,913	
Total fund equity	53,038,066	16,523,424	13,970,610	915,571	511,046,413	-	1,870,111	(854,160)	1,250,619	(4,411,940)	2,031,287	-	595,380,001	610,232,638	
Total liabilities and fund equity	\$ 141,226,997	\$ 18,555,797	\$ 14,025,258	\$ 915,571	\$ 703,038,540	\$ 1,552,260	\$ 7,871,317	\$ 145,636,316	\$ 30,221,411	\$ 8,855,116	\$ 12,262,890	\$ 5,000,000	\$ 1,089,161,473	\$ 1,020,101,639	

STATEMENT OF CHANGES IN FUND BALANCES

For The Year Ended June 30, 2000

(with totals for the year ended June 30, 1999)

	Current Funds		Loan Funds
	Unrestricted	Restricted	
Revenues and other additions:			
Unrestricted current funds revenues	\$ 656,398,905	\$ -	\$ -
Student tuition and fees - restricted	-	-	-
State appropriation - restricted	-	1,109,344	-
Federal grants and contracts - restricted	-	56,980,133	-
U. S. Government advances	-	-	120,366
State grants and contracts - restricted	-	2,774,512	-
Nongovernmental grants and contracts - restricted	-	17,660,192	43,483
Interest and investment income - restricted	-	1,357,704	62,082
Interest on student loans receivable	-	-	318,572
Endowment income	-	54,540	78
Expended for plant facilities (including \$10,476,288 charged to current funds expenditures)	-	-	-
Donated assets	-	-	-
Interest capitalized on construction	-	-	-
Capital improvement bond proceeds	-	-	-
Retirement of indebtedness - bonds	-	-	-
Retirement of indebtedness - notes	-	-	-
Retirement of indebtedness - capital leases	-	-	-
Other additions	-	80,983	209
Total revenues and other additions	656,398,905	80,017,408	544,790
Expenditures and other deductions:			
Educational and general expenditures	270,287,475	64,291,078	-
Medical Center expenditures	409,514,269	-	-
Auxiliary enterprises expenditures	1,855,779	-	-
Indirect cost recoveries remitted to the State	107,703	-	-
Extraordinary loss	4,852,083	-	-
Indirect cost recovered	-	15,863,617	-
Refunded to grantors	-	141,948	-
Expended for plant facilities	-	-	-
Retirement of indebtedness	-	-	-
Interest on indebtedness - bonds	-	-	-
Interest on indebtedness - notes	-	-	-
Amortization of software	-	-	-
Disposal of plant facilities	-	-	-
Reduction resulting from change in asset capitalization policy	-	-	-
Note payable and capital lease additions	-	-	-
Loan cancellations and write-offs	-	-	153,349
Administrative and collection costs	-	-	-
Bond issue costs	-	-	-
Noncapitalized expenditures	-	-	-
Total expenditures and other deductions	686,617,309	80,296,643	153,349
Other transfers and additions/(deductions):			
Mandatory:			
Principal and interest	(12,368,490)	-	-
Loan fund matching grant	(77,257)	-	77,257
College work study matching grant	(39,488)	39,488	-
Endowment income transferred to principal	-	(17,952)	-
Nonmandatory:			
Transfers from unrestricted current funds	(1,120,265)	-	-
Net transfers between current funds	1,452,178	(1,452,178)	-
Transfers from University Medical Associates	3,310,360	-	-
Total transfers	(8,842,962)	(1,430,642)	77,257
Net increase (decrease) for the year	(39,061,366)	(1,709,877)	468,698
Fund equity at beginning of year, as restated	92,099,432	18,233,301	13,501,912
Fund equity at end of year	\$ 53,038,066	\$ 16,523,424	\$ 13,970,610

The accompanying notes are an integral part of this financial statement.

Endowment and Similar Funds		Totals - Memorandum Only	
		2000	1999 Restated
Plant Funds			
\$	-	\$ 656,398,905	\$ 612,821,041
-	1,453,165	1,453,165	1,453,165
-	-	1,109,344	286,926
-	42,472	57,022,605	50,074,351
-	-	120,366	115,748
-	-	2,774,512	2,105,117
-	-	17,703,675	16,067,049
-	2,985,744	4,405,530	831,605
-	-	318,572	315,407
-	-	54,618	76,652
-	50,160,637	50,160,637	44,085,247
-	679,530	679,530	704,035
-	839,851	839,851	149,026
-	10,000,000	10,000,000	-
-	9,060,000	9,060,000	9,525,000
-	2,177,607	2,177,607	-
-	1,407,978	1,407,978	1,453,775
-	-	81,192	127,935
-	78,806,984	815,768,087	740,192,079
-	-	-	-
-	-	334,578,553	316,310,735
-	-	409,514,269	399,587,901
-	-	1,855,779	1,592,883
-	-	107,703	317,465
-	-	4,852,083	-
-	-	15,863,617	14,476,004
-	-	141,948	364,528
-	34,388,911	34,388,911	21,142,247
-	9,060,000	9,060,000	9,525,000
-	7,342,193	7,342,193	5,101,445
-	-	-	60,696
-	235,364	235,364	-
-	4,355,755	4,355,755	5,020,935
-	-	-	80,622,795
-	5,295,438	5,295,438	6,660,151
-	-	153,349	203,840
-	10,965	10,965	11,799
-	942,354	942,354	-
-	71,728	71,728	174,638
-	61,702,708	828,770,009	861,173,062
-	-	-	-
-	12,368,490	-	-
-	-	-	-
-	-	-	-
17,952	-	-	-
-	1,120,265	-	-
-	-	-	-
-	-	3,310,360	2,754,690
17,952	13,488,755	3,310,360	2,754,690
17,952	30,593,031	(9,691,562)	(118,226,293)
897,619	480,453,382	605,185,646	723,411,939
\$ 915,571	\$ 511,046,413	\$ 595,494,084	\$ 605,185,646

**STATEMENT OF CURRENT FUNDS REVENUES,
EXPENDITURES, AND OTHER CHANGES**

For The Year Ended June 30, 2000

(with totals for the year ended June 30, 1999)

	2000			1999 Totals
	Unrestricted	Restricted	Totals	Restated
Revenues:				
Student tuition and fees	\$ 15,699,760	\$ -	\$ 15,699,760	\$ 14,278,241
State appropriations - Academic Division	118,631,364	617,039	119,248,403	114,192,213
State appropriations - Medical Center	21,292,776	-	21,292,776	20,967,970
Federal grants and contracts	13,407,546	44,383,290	57,790,836	51,812,898
State grants and contracts	757,444	5,572,997	6,330,441	6,242,027
Local government grants and contracts	223,547	-	223,547	423,878
Private gifts, grants, and contracts	-	-	-	25,166,372
Nongovernmental grants and contracts	4,694,324	12,206,115	16,900,439	-
Gifts	6,429,387	-	6,429,387	-
Interest and investment income	1,207,302	1,357,703	2,565,005	1,797,362
Endowment income	-	54,540	54,540	47,828
Sales and services of educational departments	9,055,642	-	9,055,642	8,756,144
Sales and services of Medical Center:				
Net patient service revenue	409,689,692	-	409,689,692	358,717,582
Disproportionate share revenue, net of match	36,856,139	-	36,856,139	46,788,443
Sales and services of auxiliary enterprises	3,495,916	-	3,495,916	3,317,588
Management fee from Charleston Memorial Hospital	-	-	-	399,548
Other Academic Division revenues	10,692,087	77,858	10,769,945	13,371,237
Other Medical Center revenues	4,265,979	-	4,265,979	5,067,152
Total current revenues	656,398,905	64,269,542	720,668,447	671,346,483
Expenditures and mandatory transfers:				
Educational and general:				
Instruction	158,149,543	2,926,662	161,076,205	153,741,817
Research	23,158,541	51,864,679	75,023,220	67,122,877
Public service	15,121,779	7,868,460	22,990,239	24,224,807
Academic support	26,872,303	367,805	27,240,108	24,153,424
Student services	7,136,614	49,110	7,185,724	6,205,875
Institutional support	24,213,770	433,003	24,646,773	22,596,994
Operation and maintenance of plant	14,464,530	26,643	14,491,173	16,350,147
Scholarships and fellowships	1,170,395	754,716	1,925,111	1,914,794
Total educational and general expenditures	270,287,475	64,291,078	334,578,553	316,310,735
Mandatory transfers for:				
Loan fund matching grant	77,257	-	77,257	104,191
College work study matching grant	39,488	(39,488)	-	-
Endowment income transferred to principal	-	17,952	17,952	17,484
Total educational and general	270,404,220	64,269,542	334,673,762	316,432,410

Continued on next page

**STATEMENT OF CURRENT FUNDS REVENUES,
EXPENDITURES, AND OTHER CHANGES (Continued)**
For The Year Ended June 30, 2000
(with totals for the year ended June 30, 1999)

	2000		1999 Totals
	Unrestricted	Restricted	Restated
Medical Center:			
Expenditures	409,514,269	-	399,587,901
Mandatory transfers for principal and interest	11,661,603	-	12,778,080
Total Medical Center	421,175,872	-	412,365,981
Auxiliary enterprises:			
Expenditures	1,855,779	-	1,592,883
Mandatory transfers for principal and interest	706,887	-	706,887
Total auxiliary enterprises	2,562,666	-	2,299,770
Total expenditures and mandatory transfers	694,142,758	64,269,542	731,098,161
Other transfers and additions (deductions):			
Transfers to/from current funds:			
To loan funds	-	-	(84,978)
To unexpended plant funds	(1,120,265)	-	(11,948,122)
To retirement of indebtedness funds	-	-	(2,967,018)
Net transfers between current funds	1,452,178	(1,452,178)	-
Transfers from University Medical Associates	3,310,360	-	2,754,690
Indirect cost recoveries remitted to the State			
General Fund	(107,703)	-	(317,465)
Refunded to grantors	-	(141,948)	(364,528)
Extraordinary loss	(4,852,083)	-	-
Excess of restricted receipts over (under) transfers to revenues	-	(115,751)	(4,211,524)
Total other transfers and additions (deductions)	(1,317,513)	(1,709,877)	(17,138,945)
Net increase (decrease) in fund balances	\$ (39,061,366)	\$ (1,709,877)	\$ (40,771,243)

The accompanying notes are an integral part of this financial statement.

CHARLESTON MEMORIAL HOSPITAL - A Component Unit
STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN RETAINED EARNINGS

For The Year Ended June 30, 2000

(with comparative figures for the year ended June 30, 1999)

	2000	1999
Operating revenues:		
Net patient service revenue	\$16,478,684	\$ 24,525,061
Medical University of South Carolina contributed services	1,376,130	1,941,639
Other sources	4,207,816	3,582,893
Total operating revenues	<u>22,062,630</u>	<u>30,049,593</u>
Operating expenses:		
Patient services	15,485,959	17,376,160
General and administrative, including all employee taxes and benefits	8,110,413	8,077,598
Provision for uncollectibles, net of recoveries	3,558,786	2,706,970
Lease expense	1,716,420	1,716,420
Depreciation	641,915	663,990
Total operating expenses	<u>29,513,493</u>	<u>30,541,138</u>
Operating income (loss)	<u>(7,450,863)</u>	<u>(491,545)</u>
Nonoperating revenues (expenses):		
Interest income	259,368	973,567
Contribution income	10,973	604
Loss on disposal of property and equipment	(89,781)	(83,078)
Total nonoperating revenues (expenses)	<u>180,560</u>	<u>891,093</u>
Income before management fee	(7,270,303)	399,548
Management fee to (support from) The Medical University of South Carolina	<u>7,270,303</u>	<u>(399,548)</u>
Net income	-	-
Retained earnings at beginning of year	<u>1,870,111</u>	<u>1,870,111</u>
Retained earnings at end of year	<u>\$ 1,870,111</u>	<u>\$ 1,870,111</u>

The accompanying notes are an integral part of this financial statement.

CHARLESTON MEMORIAL HOSPITAL - A Component Unit **STATEMENT OF CASH FLOWS**

For The Year Ended June 30, 2000

(with comparative figures for the year ended June 30, 1999)

	2000	1999
Cash flows from operating activities:		
Cash received from patients and third party payors	\$ 18,568,669	\$ 32,806,554
Cash paid to suppliers and others	(19,516,397)	(25,905,165)
Cash paid to employees	(10,053,013)	(10,243,791)
Other receipts from operations	4,226,316	3,258,538
Contributions received	10,973	-
Payment of management fee and other expenses to The Medical University of South Carolina	(277,109)	(13,944,694)
Net cash provided (used) by operating activities	<u>(7,040,561)</u>	<u>(14,028,558)</u>
Cash flows from capital and related financing activities:		
Purchase of property and equipment and construction in progress	(788,438)	(894,861)
Proceeds from sale of property and equipment	2,674	2,531
Net cash provided (used) by capital and related financing activities	<u>(785,764)</u>	<u>(892,330)</u>
Cash flows from investing activities:		
Interest income	324,722	878,200
Net cash provided (used) by investing activities	<u>324,722</u>	<u>878,200</u>
Net increase (decrease) in cash and cash equivalents	(7,501,603)	(14,042,688)
Cash and cash equivalents at beginning of year	9,554,097	23,596,785
Cash and cash equivalents at end of year	<u>\$ 2,052,494</u>	<u>\$ 9,554,097</u>
Reconciliation of operating income to net cash provided (used) by operating activities:		
Operating income (loss)	\$ (7,450,863)	\$ (491,545)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation	641,915	663,990
Provision for uncollectibles	3,558,786	2,706,970
Contributions received	10,973	604
Change in assets and liabilities:		
(Increase) decrease in patient accounts receivable	(3,519,659)	(2,871,977)
(Increase) decrease in miscellaneous and third party payor receivables	(399,806)	(55,980)
(Increase) decrease in due from University Medical Associates	220,407	540,280
(Increase) decrease in inventories	(10,511)	(9,970)
(Increase) decrease in prepaid expenses	(7,181)	133,721
Increase (decrease) in accounts payable, accrued expenses and other liabilities	75,708	191,426
Increase (decrease) in third party payor payables	(153,988)	(82,728)
Increase (decrease) in due to The Medical University of South Carolina	(277,109)	(13,944,694)
Increase (decrease) in due to University Medical Associates	270,767	(808,655)
Total adjustments	<u>410,302</u>	<u>(13,537,013)</u>
Net cash provided (used) by operating activities	<u>\$ (7,040,561)</u>	<u>\$ (14,028,558)</u>
Supplemental Disclosures:		
Noncash operating activities:		
Medical University of South Carolina contributed services received (operating revenue reported) equal to contributor's cost of services (operating expense reported).	<u>\$ 1,376,130</u>	<u>\$ 1,941,639</u>

The accompanying notes are an integral part of this financial statement.

**UNIVERSITY MEDICAL ASSOCIATES OF THE MEDICAL
UNIVERSITY OF SOUTH CAROLINA - A Component Unit
STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN RETAINED EARNINGS**

For The Year Ended June 30, 2000

(with comparative figures for the year ended June 30, 1999)

	2000	1999
Operating revenues:		
Net clinical service revenue	\$ 128,481,720	\$ 132,314,158
Other operating revenue	2,125,178	2,013,272
Ambulatory care clinical education agreement support	40,000,000	40,438,624
Primary Care educational agreement support	6,000,000	-
Total operating revenues	<u>176,606,898</u>	<u>174,766,054</u>
Operating expenses:		
Departmental expenses (includes depreciation of \$1,060,228 and amortization of \$656,540)	97,354,237	98,399,099
Provision for bad debts	17,449,385	17,501,938
Corporate operating expenses (includes depreciation of \$467,329 and amortization of \$12,366)	19,183,144	19,851,391
Ambulatory care clinical education agreement expenses (includes depreciation of \$1,029,875; amortization of \$70,025; and interest expense of \$3,585,299)	42,888,449	46,626,224
Interest expense	2,831,847	1,996,287
Total operating expenses	<u>179,707,062</u>	<u>184,374,939</u>
Operating income (loss)	<u>(3,100,164)</u>	<u>(9,608,885)</u>
Nonoperating revenues (expenses):		
Rental income	3,919,821	3,605,821
Rent expense (includes depreciation of \$946,400 and amortization of \$19,194)	(1,337,067)	(1,449,420)
Interest expense on rental property	(2,512,070)	(2,723,767)
Investment income	702,323	1,985,893
Gain from sale of investment in partnership	6,156,126	-
Gain (loss) from investment in partnership	(312,531)	308,134
Other income	2,556,605	1,379,507
Loss on disposition of assets	(457,353)	(7,580)
Loss on sale of intangibles	(280,294)	-
Total net nonoperating revenues (expenses)	<u>8,435,560</u>	<u>3,098,588</u>
Net income (loss) before operating transfers and extraordinary loss	<u>5,335,396</u>	<u>(6,510,297)</u>
Transfers from (to) related entities:		
Nonmandatory contributions to Health Sciences Foundation	(36,001)	(259,832)
Nonmandatory transfers to The Medical University of South Carolina and its component units	(3,310,360)	(2,754,690)
Total transfers from (to) related entities	<u>(3,346,361)</u>	<u>(3,014,522)</u>
Net income (loss) before extraordinary loss	<u>1,989,035</u>	<u>(9,524,819)</u>
Extraordinary loss	<u>(4,882,134)</u>	<u>-</u>
Net income (loss)	<u>(2,893,099)</u>	<u>(9,524,819)</u>
Retained earnings at beginning of year	2,038,939	11,563,758
Retained earnings (deficit) at end of year	<u>\$ (854,160)</u>	<u>\$ 2,038,939</u>

The accompanying notes are an integral part of this financial statement.

**UNIVERSITY MEDICAL ASSOCIATES OF THE MEDICAL
UNIVERSITY OF SOUTH CAROLINA - A Component Unit
STATEMENT OF CASH FLOWS**

For The Year Ended June 30, 2000

(with comparative figures for the year ended June 30, 1999)

	2000	1999
Cash flows from operating activities:		
Cash received from services	\$160,171,385	\$155,956,946
Cash paid to employees	(96,577,973)	(96,397,965)
Cash paid to suppliers and others	(69,036,311)	(54,266,020)
Other receipts	8,219,341	4,980,995
Contributions to Health Sciences Foundation	(36,001)	(259,832)
Nonmandatory transfers to The Medical University of South Carolina and its component units	(3,310,360)	(2,754,690)
Net cash provided (used) by operating activities	<u>(569,919)</u>	<u>7,259,434</u>
Cash flows from noncapital financing activities:		
Borrowings under revolving line of credit note payable	5,544,405	10,100,689
Repayments of revolving line of credit note payable	(6,544,405)	(2,150,650)
Payment under structured legal settlement	(1,000,000)	-
Proceeds from interest rate swap	1,850,000	-
Interest paid on direct note obligations and notes payable	(2,949,632)	(4,844,639)
Payment of agent fees	(23,595)	(5,743)
Net cash provided (used) by noncapital financing activities	<u>(3,123,227)</u>	<u>3,099,657</u>
Cash flows from capital and related financing activities:		
Acquisition of property, plant, and equipment	(254,897)	(8,092,315)
Proceeds from direct note obligations	8,719,830	-
Proceeds from sale of fixed assets	132,598	45,463
Proceeds from notes payable	-	201,620
Acquisition of primary care operations	(220,000)	-
Proceeds from sale of primary care operations	10,000	-
Repayments of notes payable	(35,580)	(3,900)
Repayment of direct note obligations	(7,255,830)	-
Repayments of capital lease obligations	(796,296)	(602,997)
Payment of bond issue costs	(55,935)	-
Payment of agent and broker fees	(182,905)	(130,083)
Interest paid	(5,796,527)	(4,729,730)
Net cash provided (used) by capital and related financing activities	<u>(5,735,542)</u>	<u>(13,311,942)</u>
Cash flows from investing activities:		
Acquisition of investments	(3,663,771)	(6,971,351)
Investment in partnerships and joint ventures	(25,000)	-
Proceeds from sale and maturities of investments	9,600,180	11,891,317
Distributions from partnerships	25,900	47,226
Proceeds from sale of partnership	9,250,000	-
Interest and investment income received	840,606	1,687,348
Net cash provided (used) by investing activities	<u>16,027,915</u>	<u>6,654,540</u>
Net increase (decrease) in cash and cash equivalents	6,599,227	3,701,689
Cash and cash equivalents at beginning of year	<u>20,581,897</u>	<u>16,880,208</u>
Cash and cash equivalents at end of year	<u>\$ 27,181,124</u>	<u>\$ 20,581,897</u>

Continued on next page

**UNIVERSITY MEDICAL ASSOCIATES OF THE MEDICAL
UNIVERSITY OF SOUTH CAROLINA - A Component Unit
STATEMENT OF CASH FLOWS (Continued)**

For The Year Ended June 30, 2000

(with comparative figures for the year ended June 30, 1999)

	2000	1999
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating income (loss)	<u>\$ (3,100,164)</u>	<u>\$ (9,608,885)</u>
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation and amortization	3,296,361	3,043,242
Provision for bad debts	17,449,385	17,501,938
Equipment contributed to the Medical University of South Carolina acquired through capital leases	623,582	-
Contributions to Health Sciences Foundation	(36,001)	(259,832)
Nonmandatory transfers to The Medical University of South Carolina and its component units	(3,310,360)	(2,754,690)
Rental and other income received	6,476,426	4,980,995
Extraordinary loss paid during the current year	(4,534,217)	-
Interest expense - reclassified to noncapital and capital financing	6,417,146	6,451,671
Agent and broker fees paid - reclassified to noncapital and capital financing activities	206,500	135,826
Change in assets and liabilities:		
(Increase) decrease in accounts receivable - patients	(17,227,002)	(18,032,289)
(Increase) decrease in other receivables	186,896	(291,164)
(Increase) decrease in due from The Medical University of South Carolina	(615,696)	4,208,423
(Increase) decrease in due from Charleston Memorial Hospital	(270,767)	808,655
(Increase) decrease in due from Pharmaceutical Education and Development Foundation	(382,263)	(595,272)
(Increase) decrease in due from MUSC Foundation for Research Development	(8,750)	-
(Increase) decrease in prepaid items	538,359	802,900
(Increase) decrease in other assets	(422,385)	61,227
Increase (decrease) in accounts payable	(1,367,426)	3,049,388
Increase (decrease) in accrued payroll and related liabilities	(996,369)	896,029
Increase (decrease) in accrued leave and related liabilities	(196,994)	320,425
Increase (decrease) in due to The Medical University of South Carolina	(5,748,847)	(4,367,181)
Increase (decrease) in due to Medical University Hospital Authority	2,916,667	-
Increase (decrease) in due to Charleston Memorial Hospital	(220,407)	(540,280)
Increase (decrease) in pension plan payable	60,921	1,116,329
Increase (decrease) in other liabilities	(304,514)	331,979
Total adjustments	<u>2,530,245</u>	<u>16,868,319</u>
Net cash provided (used) by operating activities	<u>\$ (569,919)</u>	<u>\$ 7,259,434</u>

Supplemental disclosures:

Noncash capital and related financing activities:

UMA issued direct note obligations, series 1999A and 1999B. The \$85,000,000 of proceeds were used as follows: \$70,994,170 was used towards the partial refunding of the 1994 and 1997 select auction variable rate securities used for the costs of issuance, and \$8,719,830 were cash proceeds that were used to establish a debt service and to pay down the lines of credit.

UMA acquired \$819,549 of new equipment through capital leases of which \$623,582 was contributed to the University.

UMA acquired \$714,062 of new equipment through long-term debt.

UMA transferred to the State of South Carolina assets with capital lease obligations of \$486,307.

Noncash noncapital financing activities:

UMA entered into a structured settlement agreement with the federal government for \$5,200,000 and received a net \$4,852,083 for a portion of the settlement due from the University.

Noncash investing activities:

A distribution from Lowcountry Medical Group, LLC of \$888,719 was contributed to Lowcountry Real Property, LLC.

The accompanying notes are an integral part of this financial statement.

**MEDICAL UNIVERSITY FACILITIES CORPORATION -
A Component Unit
STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN RETAINED EARNINGS**

For the Year Ended June 30, 2000

(with comparative figures for the year ended June 30, 1999)

	2000	1999
Operating revenues:		
Interest income	\$ 151,777	\$ 113,281
Interest income from The Medical University of South Carolina	<u>2,105,717</u>	<u>2,167,796</u>
Total operating revenues	<u>2,257,494</u>	<u>2,281,077</u>
Operating expenses:		
Interest	2,085,419	2,153,715
Amortization of bond issue costs	16,928	16,928
Fees	<u>9,059</u>	<u>6,583</u>
Total operating expenses	<u>2,111,406</u>	<u>2,177,226</u>
Operating income	146,088	103,851
Retained earnings at beginning of year	<u>1,104,531</u>	<u>1,000,680</u>
Retained earnings at end of year	<u>\$ 1,250,619</u>	<u>\$ 1,104,531</u>

The accompanying notes are an integral part of this financial statement.

**MEDICAL UNIVERSITY FACILITIES CORPORATION -
A Component Unit
STATEMENT OF CASH FLOWS**

For the Year Ended June 30, 2000

(with comparative figures for the year ended June 30, 1999)

	2000	1999
Cash flows from noncapital financing activities:		
Principal paid on bonds payable	\$ (356,000)	\$ (332,000)
Principal paid on certificates of participation	(625,000)	(585,000)
Interest paid on bonds payable	(918,619)	(943,807)
Interest paid on certificates of participation	<u>(1,195,619)</u>	<u>(1,236,569)</u>
Net cash provided (used) by noncapital financing activities	<u>(3,095,238)</u>	<u>(3,097,376)</u>
Cash flows from investing activities:		
Collections of capital lease principal	875,299	812,139
Interest received on capital leases	2,105,717	2,167,796
Purchases of investments	(1,053,892)	(1,149,793)
Proceeds from sales and maturities of investments	1,053,892	1,149,793
Interest on investments	152,027	113,667
Funds received and held for The Medical University of South Carolina	19,084	23,835
Fees paid	<u>(9,059)</u>	<u>(6,583)</u>
Net cash provided (used) by investing activities	<u>3,143,068</u>	<u>3,110,854</u>
Net increase (decrease) in cash and cash equivalents	47,830	13,478
Cash and cash equivalents at beginning of year	<u>3,272,283</u>	<u>3,258,805</u>
Cash and cash equivalents at end of year	<u><u>\$ 3,320,113</u></u>	<u><u>\$ 3,272,283</u></u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	<u>\$ 146,088</u>	<u>\$ 103,851</u>
Adjustments to reconcile operating income to net cash provided by operating activities:		
Amortization of bond issue costs	16,928	16,928
Interest income - reclassified to investing activities	(2,257,494)	(2,281,077)
Interest expense - reclassified to investing activities	2,085,419	2,153,715
Fees - reclassified to investing activities	<u>9,059</u>	<u>6,583</u>
Total adjustments	<u>(146,088)</u>	<u>(103,851)</u>
Net cash provided by operating activities	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

The accompanying notes are an integral part of this financial statement.

**PHARMACEUTICAL EDUCATION AND DEVELOPMENT
FOUNDATION OF THE MEDICAL UNIVERSITY OF
SOUTH CAROLINA - A Component Unit
STATEMENT OF ACTIVITIES**

For The Year Ended June 30, 2000

(with comparative figures for the year ended June 30, 1999)

	2000	1999
Revenues, gains, and other support:		
Sales/contract income	\$ 2,571,099	\$ 2,738,949
Interest income	8,208	34,952
Other income - from educational support to The Medical University of South Carolina	210,000	210,000
Other income	198,465	-
Total revenues, gains, and other support	<u>2,987,772</u>	<u>2,983,901</u>
Expenses:		
Program expenses:		
Contributions to College of Pharmacy	<u>-</u>	<u>2,209</u>
Support services - management and general:		
Contract personnel	2,264,315	2,056,956
Supplies	324,410	344,607
Rent and utilities	384,339	300,898
Services	361,980	318,362
Interest	782,711	331,684
Marketing	106,970	119,727
Depreciation	390,765	179,803
Insurance	145,539	101,490
Travel and entertainment	94,982	85,830
Repairs and maintenance	97,499	47,001
Taxes	18,170	46,528
Commission expense	16,590	42,449
Lease expense	189,426	33,501
Miscellaneous	156,124	17,772
Loss on disposal of equipment	-	760
Bad debts	5,668	-
Total support services - management and general	<u>5,339,488</u>	<u>4,027,368</u>
Total expenses	<u>5,339,488</u>	<u>4,029,577</u>
Change in unrestricted net assets (decrease)	(2,351,716)	(1,045,676)
Net assets at beginning of year (deficit)	<u>(2,060,224)</u>	<u>(1,014,548)</u>
Net assets at end of year (deficit)	<u>\$ (4,411,940)</u>	<u>\$ (2,060,224)</u>

The accompanying notes are an integral part of this financial statement.

**PHARMACEUTICAL EDUCATION AND DEVELOPMENT
FOUNDATION OF THE MEDICAL UNIVERSITY OF
SOUTH CAROLINA - A Component Unit
STATEMENT OF CASH FLOWS**

For The Year Ended June 30, 2000

(with comparative figures for the year ended June 30, 1999)

	2000	1999
Cash flows from operating activities:		
Cash received for services	\$ 2,375,221	\$ 3,018,053
Cash paid to suppliers and others	(3,483,730)	(2,652,362)
Interest income	8,208	36,604
Interest paid	(265,217)	(365,189)
Net cash provided (used) by operating activities	<u>(1,365,518)</u>	<u>37,106</u>
Cash flows from investing activities:		
Purchases of property and equipment	(512,880)	(686,169)
Net cash provided (used) by investing activities	<u>(512,880)</u>	<u>(686,169)</u>
Cash flows from financing activities:		
Proceeds from notes payable	-	60,000
Proceeds from obligation payable to Health Sciences Foundation	1,839,886	499,998
Payments on unsecured notes payable	(24,369)	(67,605)
Payments on capital lease	(178,126)	(146,531)
Net cash provided (used) by financing activities	<u>1,637,391</u>	<u>345,862</u>
Net increase (decrease) in cash and cash equivalents	(241,007)	(303,201)
Cash and cash equivalents at beginning of period	280,220	583,421
Cash and cash equivalents at end of period	<u>\$ 39,213</u>	<u>\$ 280,220</u>
Reconciliation of cash flows from operating activities:		
Change in net assets (decrease)	\$ (2,351,716)	\$ (1,045,676)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	390,764	179,803
Insurance	-	71,150
Noncash contribution of revenue	(198,333)	-
Noncash interest expense	190,454	-
Interest expense capitalized	327,042	-
Contribution of equipment to The Medical University of South Carolina	-	2,209
Loss on disposal of assets	-	760
Changes in operating assets and liabilities:		
(Increase) decrease in deposit held by The Medical University of South Carolina	-	1,320
(Increase) decrease in grants and contracts receivable	(253,532)	98,722
(Increase) decrease in prepaid expenses and other assets	42,819	(35,380)
(Increase) decrease in inventory	2,611	(5,577)
Increase (decrease) in accounts payable	(8,734)	190,226
Increase (decrease) in deferred revenue and other liabilities	57,520	(29,620)
Increase (decrease) in due to The Medical University of South Carolina	53,324	13,897
Increase (decrease) in due to University Medical Associates	382,263	595,272
Total adjustments	<u>986,198</u>	<u>1,082,782</u>
Net cash provided by operating activities	<u>\$ (1,365,518)</u>	<u>\$ 37,106</u>

Supplemental Disclosures:

Noncash financing activities:

PEDF recorded a reduction in the principal balance of the building capital lease in the amount of \$12,958 and interest expense of \$327,042 as a result of a lease amendment deferring and reclassifying six months of lease payments to a noninterest bearing liability for \$340,000. PEDF also reduced the principal balance of the building capital lease by \$7,879 and recorded interest expense of \$190,454 as a result of a credit of three and a half months

The accompanying notes are an integral part of this financial statement

**MUSC FOUNDATION FOR RESEARCH DEVELOPMENT -
A Component Unit
STATEMENT OF ACTIVITIES**

For The Year Ended June 30, 2000

(with comparative figures for the year ended June 30, 1999)

	2000			1999
	Unrestricted	Temporarily Restricted	Total	Total
Revenues, gains, and other support:				
State grants and contracts	\$ 1,270,000	\$ 957,443	\$ 2,227,443	\$ 1,507,495
Corporate contracts and awards	294,113	4,168,676	4,462,789	3,661,408
Contributions and private grants	63,500	480	63,980	202,947
License fees and royalties	484,093	-	484,093	95,668
Investment income	448,480	125,305	573,785	658,629
Net unrealized and realized gain (loss) on long-term investments	7,384	-	7,384	40,915
Miscellaneous income	65,982	-	65,982	59,787
Total revenues, gains, and other support	2,633,552	5,251,904	7,885,456	6,226,849
Net assets released from restrictions:				
Program restrictions satisfied	5,354,578	(5,354,578)	-	-
Totals	7,988,130	(102,674)	7,885,456	6,226,849
Expenses:				
Program services:				
Research (includes depreciation of \$25,009)	4,043,418	-	4,043,418	2,796,166
Training	209,362	-	209,362	210,995
Public service (includes depreciation of \$13,132)	1,348,275	-	1,348,275	109,774
Residual accounts (includes depreciation of \$3,607)	371,575	-	371,575	382,951
Total program expenses	5,972,630	-	5,972,630	3,499,886
Supporting services - management and general Operations (includes depreciation of \$14,290)	853,809	-	853,809	869,863
Clinical Innovation Group (includes depreciation of \$13,553)	815,399	-	815,399	955,864
License activities	305,966	-	305,966	64,412
Total supporting services	1,975,174	-	1,975,174	1,890,139
Total expenses	7,947,804	-	7,947,804	5,390,025
Change in net assets	40,326	(102,674)	(62,348)	836,824
Net assets at beginning of year	1,856,545	237,090	2,093,635	1,256,811
Net assets at end of year	\$ 1,896,871	\$ 134,416	\$ 2,031,287	\$ 2,093,635

The accompanying notes are an integral part of this financial statement.

**MUSC FOUNDATION FOR RESEARCH DEVELOPMENT -
A Component Unit
STATEMENT OF CASH FLOWS**

For The Year Ended June 30, 2000

(with comparative figures for the year ended June 30, 1999)

	2000	1999
Cash flows from operating activities:		
Cash received for services	\$ 10,519,023	\$ 4,573,212
Cash paid to suppliers and others	(7,189,946)	(5,274,342)
Cash paid to employees	(1,261,085)	(869,347)
Interest income received	598,780	489,012
Contributions received	63,980	153,049
Cash received and held for others	-	1,602,552
Cash held for others returned to The Medical University of South Carolina	(3,322,739)	(3,153,452)
Net cash provided (used) by operating activities	<u>(591,987)</u>	<u>(2,479,316)</u>
Cash flows from investing activities:		
Purchases of property and equipment	(147,088)	(224,307)
Purchases of investments	(7,064,539)	(8,074,657)
Proceeds from sales and maturities of investments	7,836,330	8,793,000
Net cash provided (used) by investing activities	<u>624,703</u>	<u>494,036</u>
Net increase (decrease) in cash and cash equivalents	32,716	(1,985,280)
Cash and cash equivalents at beginning of period	<u>2,614,009</u>	<u>4,599,289</u>
Cash and cash equivalents at end of period	<u>\$ 2,646,725</u>	<u>\$ 2,614,009</u>
Reconciliation of cash flows from operating activities:		
Change in net assets	<u>\$ (62,348)</u>	<u>\$ 836,824</u>
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	69,591	44,120
Amortization of bond premium and discount	(8,146)	(86,105)
Net unrealized and realized gains on investment	(7,384)	(40,916)
Contributed securities	-	(49,898)
Change in operating assets and liabilities:		
(Increase) decrease in grants and contracts receivable	(373,210)	(320,434)
(Increase) decrease in accrued interest receivable	33,141	(83,511)
(Increase) decrease in prepaid expenses	(30,002)	(20)
Increase (decrease) in accounts payable and accrued expenses	(25,741)	170,939
Increase (decrease) in deferred revenues	3,651,926	(430,712)
Increase (decrease) in due to The Medical University of South Carolina	(3,848,564)	(2,519,603)
Increase (decrease) in due to University Medical Associates	8,750	-
Total adjustments	<u>(529,639)</u>	<u>(3,316,140)</u>
Net cash provided (used) by operating activities	<u>\$ (591,987)</u>	<u>\$(2,479,316)</u>

The accompanying notes are an integral part of this financial statement.

MEDICAL UNIVERSITY HOSPITAL AUTHORITY
A Component Unit
STATEMENT OF CASH FLOWS

Cash flows from operating activities:	
Cash advance to University Medical Associates	\$ (2,916,667)
Cash flows from noncapital financing activities:	
Borrowings under revolving line of credit note payable	<u>5,000,000</u>
Net increase in cash and cash equivalents	2,083,333
Cash and cash equivalents at beginning of period	<u>-</u>
Cash and cash equivalents at end of period	<u><u>\$ 2,083,333</u></u>

The accompanying notes are an integral part of this financial statement.

Notes To Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Governmental Accounting Standards Board (GASB) is the recognized standard-setting body for generally accepted accounting principles (GAAP) for all state governmental entities including colleges and universities. The financial statements of The Medical University of South Carolina (the University) have been prepared in accordance with GAAP, as outlined in Governmental Accounting Standards Board (GASB) Statement No. 15. That statement permits the entity to use the American Institute of Certified Public Accountants (AICPA) College Guide model. The AICPA College Guide model is the accounting and financial reporting guidance as defined by the AICPA Industry Audit Guide, Audits of Colleges and Universities, as amended by the AICPA Statement of Position (SOP) 74-8, Financial Accounting and Reporting by Colleges and Universities, as modified by applicable Financial Accounting Standards Board (FASB) pronouncements issued through November 30, 1989, and as modified by all applicable GASB pronouncements.

A summary of significant accounting policies follows.

Reporting Entity

The Medical University of South Carolina is a State-supported, coeducational institution of higher education. The University is granted an annual appropriation for operating purposes as authorized by the South Carolina General Assembly. The appropriation as enacted becomes the legal operating budget for the institution. The Appropriation Act authorizes expenditures from funds appropriated from the General Fund of the State and authorizes expenditures of total funds. The laws of the State and the policies and procedures specified by the State for State agencies and institutions are applicable to the activities of the University. The Medical University of South Carolina was established as an institution of higher education by Section 59-101-10 of the Code of Laws of South Carolina. The University is composed of the Academic Division and the Medical Center. The South Carolina Area Health Education Consortium (AHEC) is included in the Academic Division. The purpose of AHEC is to provide education, recruitment and retention programs for health care providers by linking the State's academic health science colleges with service agencies and practitioners through community based health education centers.

The University is part of the primary government of the State of South Carolina and its funds are reported in the State's higher education funds in the Comprehensive Annual Financial Report of the State of South Carolina. Generally, all State departments, agencies, and colleges are included in the State's reporting entity. These entities are financially accountable to and fiscally dependent on the State. Although the State-supported universities operate somewhat autonomously, they lack full corporate powers. In addition, the Governor and/or the General Assembly appoint most of their board members and budget a significant portion of their funds. The Board of Trustees, whose members are the Governor (or his designee) ex officio, twelve members elected by the General Assembly in joint assembly, and one member appointed by the Governor, is the governing body of the University. The Board administers, has jurisdiction over, and is responsible for the management of the University.

The core of the financial reporting entity is the primary government which has a separately elected governing body. As required by generally accepted accounting principles, the financial reporting entity includes both the primary government and all of its component units. Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. In turn, component units may have component units. An organization other than a primary government may serve as a nucleus for a reporting entity when it issues separate financial statements. That organization is identified herein as a primary entity. The financial reporting entity includes the University and all of its component units blended in the primary entity.

A primary government or entity is financially accountable if its officials or appointees appoint a voting majority of an organization's governing body, including situations in which the voting majority consists of the primary entity's officials serving as required by law (e.g., employees who serve in an ex officio capacity on the component unit's board are considered appointments by the primary entity) and (1) it is able to impose its will on that organization or (2) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary entity. The primary entity also may be financially accountable if an organization is fiscally dependent on it even if it does not appoint a voting majority of the board. An organization is fiscally dependent on the primary government or entity unless the organization holds all of the following powers:

- (1) Determines its budget without another government's having the authority to approve and modify that budget.
- (2) Levies taxes or sets rates or charges without approval by another government.
- (3) Issues bonded debt without approval by another government.

THE MEDICAL UNIVERSITY OF SOUTH CAROLINA

The organization is fiscally independent if it holds all three of those powers. Based on these criteria, the University has determined this financial reporting entity includes the University (a primary entity) and all of its component units blended in the primary entity. Based on the application of the above criteria, certain component units are included in the reporting entity because of the significance of their operational or financial relationships with the University. The following identifies the University's component units and the methods of reporting them in these financial statements. All of the component units are blended in the primary entity in discrete columns.

Charleston Memorial Hospital (CMH) is a not-for-profit acute care facility serving primarily the medically indigent within the County of Charleston. The land, buildings, and improvements utilized by CMH are leased from Charleston County. Charleston Memorial Hospital is considered a component unit because the University entered into a management agreement with Charleston County whereby the University assumed responsibility for CMH. The agreement requires that the University continue to provide all services being provided as of the date of the agreement and that the University is responsible for all expenses of CMH. Under the management agreement, the board of the University serves as the board of Charleston Memorial Hospital and is therefore able to impose its will on CMH. The Governmental Accounting Standards Board in Statement 14 requires that a blended presentation be used when the component unit's governing body is substantively the same as the governing body of the primary entity.

University Medical Associates of The Medical University of South Carolina (UMA) is a component unit of the University because the University is financially accountable for UMA. UMA is a nonprofit, non-stock corporation. UMA was established to deliver inpatient and outpatient professional services for the benefit of the University and accordingly bills, collects, and administers all clinical income generated by its participating physicians. UMA provides the full-time clinical professional faculty and other health professionals with the development of group practice arrangements and operates as a multi-specialty group practice of medicine and related services in the furtherance of medicine, medical research, and education. The by-laws of UMA provide for all of its assets to be transferred to the University upon its dissolution. UMA is considered a component unit because the University has appointment authority over a majority of the UMA board. The fact that certain designated employees of the University are members of the board of UMA under its bylaws constitutes appointment authority. Since the purpose of UMA is to provide services almost entirely to the University, it is considered a blended component unit under Statement 14 of the Governmental Accounting Standards Board.

UMA has formed for-profit subsidiaries for the purpose of creating a primary care network by establishing satellite and affiliate offices and contracting with area physicians to carry out primary care functions. Carolina Family Care, Inc. (CFC) is owned 100% by UMA. Carolina Health Management Services (CHMS) is controlled 100% by UMA. The primary care offices operate under CFC. CHMS employs management, administrative, and non-medical personnel for CFC. Carolina Primary Care Physicians, P.A. (CPCP) is owned 100% by Dr. Howard Evert, but he has assigned all rights in the stock to UMA. CPCP employs the physicians and clinical staff of CFC. CFC and CPCP are organized as for-profit corporations under South Carolina law, whereas CHMS is organized as a non-profit public benefit corporation under South Carolina law. CHMS converted from a for-profit corporation to a non-profit corporation in January, 2000. All three blended component units are income taxable under state and federal law. These component units do not issue separate financial statements.

UMA is financially accountable for its component units because UMA is able to impose its will on the organizations, there is a potential for the organizations to provide specific financial benefits to or impose specific financial burdens on UMA and there is a fiscal dependency by the organizations on UMA. As required by generally accepted accounting principles, the University's financial statements include UMA and its component units.

Medical University Facilities Corporation (MUFC) is a nonprofit corporation established in 1992 to obtain the financing for the University to purchase land, an office building, and a parking garage. A majority of the members of the Board of Directors of the Corporation are employees of the University or members of the University's Board of Trustees. The agreement between the University and the Corporation requires the University to pay all costs of the Corporation. Medical University Facilities Corporation is considered to be a component unit because the nature and significance of its relationship with the University is such that exclusion from the reporting entity would render the financial statements incomplete. The Corporation is a blended component unit since its only purpose is to provide financing services to the University.

Pharmaceutical Education and Development Foundation of The Medical University of South Carolina (PEDF) was incorporated in September, 1994, under the laws of South Carolina as an educational, charitable, eleemosynary foundation to promote educational, research, clinical, and other facilities and programs of the University's College of Pharmacy. If PEDF is dissolved, its assets will be transferred to the Health Sciences Foundation for the benefit of the College of Pharmacy, or if the College of Pharmacy is not in existence at that time, such assets will be transferred to the Health Sciences Foundation for the benefit of such other activities of the University as its Board of Trustees shall determine. Revenues of PEDF are generated from contracts with pharmaceutical companies for a wide variety of services

in pharmaceutical research and development. PEDF is considered a component unit because it is fiscally dependent on the University. Any revenue distribution policy adopted by PEDF requires approval by the University's Board of Trustees. PEDF is a blended component unit since its purpose is to provide services almost entirely to the University.

MUSC Foundation for Research Development (MFRD) was incorporated in March, 1995, as a direct support organization for the University. The mission of MFRD is to support the educational, research and health care mission of the University by fostering creativity and innovation. Additionally, MFRD is charged with initiating and sustaining cooperation and collaboration between the University and business and industry, acting as the University's intellectual property management and technology marketing arm, and advancing health related economic development for South Carolina and the nation. MFRD is a component unit of the University since it is fiscally dependent on the University. MFRD must have prior written consent from the University's Board of Trustees to sell, lease, exchange or mortgage any of its property or assets. MFRD is a blended component unit since it provides services almost entirely to the University.

The Medical University Hospital Authority (the Authority) was formed on June 16, 2000 upon the passing of a resolution by the Board of Trustees of the University as provided under House bill 4017 which was signed by the Governor on May 1, 2000. The purpose of the Authority is to manage and operate the hospitals and clinics of the University. The legislation requires that the Board of Trustees of the University will also serve as the Board of the Authority. Because of this, the Board of Trustees of the University is able to impose its will on the Authority and in accordance with Governmental Accounting Standards Statement 14, the Authority's financial activity is blended with the University's activity. The only activity of the Authority was the borrowing of funds under a revolving line of credit and the advance of a portion of these funds to University Medical Associates of The Medical University of South Carolina. All assets, liabilities, fund balances and operations of the Medical Center were transferred to the Authority as of July 1, 2000. The Authority is responsible for the management of Charleston Memorial Hospital.

Copies of the separately issued financial statements of Charleston Memorial Hospital, University Medical Associates, Pharmaceutical Education and Development Foundation, and MUSC Foundation for Research Development are available from the management of each entity. Medical University Facilities Corporation and Medical University Hospital Authority do not issue separate financial statements.

The accompanying financial statements present the financial position; the changes in fund balances; the current funds revenues, expenditures, and other changes; and the results of operations and cash flows of the component units of only that portion of the funds of the State of South Carolina that is attributable to the transactions of the University and its component units.

Presentation of Component Units

The University's component units, despite being legally separate from the University (the primary entity), are so intertwined with it that they are, in substance, the same as the primary entity. If the primary entity and its component units use the same reporting model, then such component unit's balances and transactions are blended with those of the primary entity and reported in the applicable fund groups as if they were balances and transactions of the primary entity. However, because the University and its component units use different reporting models, the component units' balances and transactions are reported in discrete columns and included in the "primary entity" totals. Discrete presentation entails reporting component unit financial data which has not been converted to the AICPA college and university model in separate columns or on separate financial statements of the primary entity. The columns and statements are labeled "component units".

Basis of Accounting

The financial statements of the University have been prepared on the accrual basis except that, in accordance with accounting practices customarily followed by governmental educational institutions, no provision is made for depreciation of physical plant assets, interest on loans to students is recorded when collected, and revenue from tuition and student fees for summer sessions is reported totally within the fiscal year in which the session is primarily conducted. Otherwise, revenues are reported in the accounting period when earned and become measurable and expenditures when materials or services are received or when incurred, if measurable.

Unrestricted state appropriations are recognized as revenue when received or made available. The statement of current funds revenues, expenditures, and other changes is a statement of financial activities of current funds related to the current reporting period. The statement does not purport to present the results of operations or the net income or loss for the period as would a statement of income or a statement of revenue and expenses.

Mandatory transfers are limited to those arising out of binding legal arrangements related to financing the educational plant (e.g., construction, repairs, debt amortization, and interest); agreements to match gifts and grants; or required

matching of certain federal loan programs. All other interfund transfers are reported as nonmandatory transfers.

To the extent that current funds are used to finance plant assets, the amounts so provided are accounted for as (1) expenditures, in the case of alterations and renovations and purchases and normal replacement of movable equipment and library books; (2) mandatory transfers in the case of required provisions; and (3) transfers of a nonmandatory nature in all other cases.

Basis of Accounting - Component Units

The financial statements of all of the component units are prepared on the accrual basis. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

Charleston Memorial Hospital, University Medical Associates, Medical University Facilities Corporation and the Medical University Hospital Authority conduct business-like activities. They are financed primarily through user charges. The measurement focus of these entities is on the flow of economic resources and the determination and presentation of net income, financial position, and cash flows. These component units are considered to be governmental entities and have implemented Governmental Accounting Standards Board (GASB) Statement No. 29, *The Use of Not-for-Profit Accounting and Financial Reporting Principles by Governmental Entities*. This statement provides that governmental entities that heretofore have applied not-for-profit accounting and financial reporting principles by following the American Institute of Certified Public Accountants (AICPA) Statement of Position (SOP) 78-10, *Accounting Principles and Reporting Practices for Certain Nonprofit Organizations*, or the *Industry Audit Guide, Audits of Voluntary Health and Welfare Organizations*, should apply the governmental model or the AICPA not-for-profit model. CMH, UMA, MUFC and the Authority have elected to apply the governmental proprietary fund model. These entities apply all applicable GASB pronouncements and, in accordance with GASB 20, have elected to apply only those FASB pronouncements issued on or before November 30, 1989, and not in conflict with GASB standards. CMH, UMA, MUFC and the Authority use only one fund category, proprietary, within which they maintain one fund type, enterprise. Proprietary funds are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Enterprise funds are used to account for those operations that are financed and operated in a manner similar to private business or where the board has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability.

Pharmaceutical Education and Development Foundation and MUSC Foundation for Research Development are deemed not to be governmental entities because a controlling majority of their governing bodies is not appointed nor approved by government officials. Both entities have adopted Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, PEDF and MFRD are required to report information regarding financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Fund Accounting

Fund accounting is the procedure by which resources for various purposes are classified for accounting and reporting purposes into funds that are in accordance with specified activities or objectives in accordance with limitations and restrictions imposed by sources outside the institution or in accordance with directions issued by the governing board. Separate accounts are maintained for each fund; however, in the accompanying financial statements, funds that have similar characteristics have been combined into fund groups and subgroups. Accordingly, all financial transactions have been recorded and reported by fund group and subgroup.

Within each fund group, fund balances restricted by outside sources are so indicated and are distinguished from unrestricted funds allocated to specific purposes by action of the governing board. Externally restricted funds may be utilized only in accordance with the purposes established by the source of such funds and are in contrast with unrestricted funds, over which the governing board retains full control to use in achieving any of its institutional purposes.

All gains and losses arising from the sale, collection, or other disposition of investments and other noncash assets are accounted for in the fund that owns such assets. Ordinary income derived from investments, receivables, and the like is accounted for in the fund owning such assets, except for income derived from investments of endowment and similar funds which is accounted for in the fund to which it is restricted or, if unrestricted, as revenue in unrestricted current funds unless the endowment agreement requires the income to be added to the corpus. Certain endowment agreements require current earnings not used for the restricted purpose to be added to the corpus. The University records a mandatory transfer to move these monies to the endowment fund group.

All other unrestricted revenues are accounted for in unrestricted current funds. Restricted gifts, grants, appropriations, endowment income, and other restricted resources are accounted for in the appropriate restricted funds.

Current Funds

The current funds group includes those economic resources which are expendable for operating purposes to perform the primary missions of the University, which are instruction, research, and public service. For a more meaningful disclosure, the current funds are divided into two subgroups: unrestricted and restricted. Separate accounts are maintained for the Medical Center, the Academic Division, the South Carolina Area Health Education Consortium, and auxiliary enterprise operations in the unrestricted current funds. Current funds are considered unrestricted unless the restrictions imposed by the donor or other external agency are so specific that they substantially reduce the University's flexibility in their utilization. Unrestricted gifts are recognized as revenue when received and other unrestricted resources are recorded as revenue when earned. Receipts that are restricted are recorded initially as additions to restricted fund balances and recognized as revenue to the extent that such funds are expended for the restricted purposes during the current fiscal year and met all related requirements.

The Medical Center and auxiliary enterprises, primarily composed of parking facilities, are essentially self-supporting business entities and activities that exist for the purpose of furnishing goods and services primarily to patients, students, faculty, staff, or departments and for which charges are made that directly relate to such goods and services. Revenue and expenditures are reported separately as unrestricted current funds. Assets, liabilities, and fund balances are combined with other unrestricted current funds for reporting purposes; however, each separate enterprise maintains its own assets, liabilities, and fund balance.

Loan Funds

The loan funds group accounts for the resources available for loans to students from donors, government agencies, and mandatory institutional matching grants. Loan funds have been divided into those provided by the federal government and those provided by other sources. Expenditures include costs of loan collections, loan cancellations and collectibility reserves, uncollectible loan write-offs, and administrative costs under the federal loan programs. To the extent that current funds are used to meet required provisions for grant matching, they are accounted for as mandatory transfers.

Endowment and Similar Funds

The endowment and similar funds group includes endowment funds and funds functioning as endowments (quasi-endowment). Endowment funds are subject to the restrictions of gift instruments requiring in perpetuity that the principal be invested and only the income be utilized. All of the University's endowments require the income to be used for specified purposes. While quasi-endowment funds have been established by the governing board for the same purposes as permanent endowment funds, subject to any restrictions imposed by the donor of the resources, any unrestricted portion of the principal as well as income may be expended at the discretion of the governing board. The term "principal" is construed to include the original value of an endowment and subsequent additions and realized gains/losses attributable to investment transactions.

Plant Funds

The plant funds group consists of three self-balancing subgroups: (1) unexpended plant funds, (2) funds for retirement of indebtedness, and (3) investment in plant. The three subgroups are combined for reporting purposes. Separate balance sheet and statement of changes in fund balances for the three subgroups are presented in Note 10. The unexpended plant funds subgroup accounts for the resources derived from various sources and any debt related to unexpended resources to finance the acquisition of long-life assets and to provide for routine renewal and replacement of existing plant assets, all construction in progress, and debt related to expended or unexpended resources included in this fund subgroup. Receipts legally designated solely for plant improvements or renewals and replacements are recorded directly in the University's plant funds as revenue. The retirement of indebtedness subgroup accounts for resources that are specifically accumulated for interest and principal payments, debt service reserve funds, and other debt service charges related to plant fund indebtedness except for capital leases. Receipts legally restricted for debt service for state institution bonds are recorded directly in the retirement of indebtedness subgroup. The investment in plant subgroup accounts for all long-life assets in the service of the University and related debt for funds borrowed and expended for the acquisition of plant assets included in this fund subgroup. Net investment in plant represents the excess of the carrying value of plant assets over the related liabilities.

Agency Funds

The agency funds group accounts for the assets held on behalf of others in the capacity of custodian or fiscal agent; consequently, transactions relating to agency funds do not affect the operating statements of the University. They include the accounts of students, student organizations, University Medical Associates, and other groups directly associated with the University.

Investment in Plant

Physical plant and equipment, except for plant assets acquired prior to July 1, 1982, and equipment acquired under capital lease, are stated at cost at the date of acquisition or fair market value at the date of donation in the case of gifts. Plant assets acquired prior to July 1, 1982, are stated at estimated historical cost determined by independent appraisal. Library books as of June 30, 1982, were recorded at cost or at estimated fair value if donated property. Equipment additions purchased through capital leases or installment purchase contracts are capitalized in the investment in plant funds subgroup in the year of acquisition at their total cost, excluding interest charges. Equipment under capital leases is stated at the lower of the present value of minimum lease payments, including the down payment, at the beginning of the lease term or fair value at the inception of the lease. Payments of principal and interest on such contracts are recorded in the applicable functional expenditure categories of the current funds group as the installments are paid. Infrastructure assets include streets, sidewalks, parking lots, drainage systems, lighting systems, utility systems, and similar assets that are immovable and of value only to the University which reports these assets as land improvements and values them at cost.

Construction in progress is valued at total cost less noncapitalized costs in the unexpended plant funds subgroup when the costs are incurred. Upon completion of the project, these capitalized costs are recorded as expenditures in unexpended plant funds and simultaneously transferred to the investment in plant subgroup and recorded in the appropriate asset accounts.

Library books, periodicals, and other library materials on computer data storage devices are recorded at cost or fair market value at the date of donation. Current funds expenditures for acquisition of capital assets are simultaneously recorded in both the current funds expenditure accounts of the various operating departments and in the investment in plant funds subgroup.

Computer software includes the external direct costs of materials and services consumed in developing or obtaining internal-use computer software; payroll and payroll-related costs for employees who are directly associated with and who devote time to the internal-use computer software project; interest costs incurred when developing computer software; and costs to develop or obtain software that allows for access or conversion of old data by new systems. These costs are incurred during the application development stage. The cost of computer software developed or obtained for internal use is amortized on a straight-line basis over the estimated useful life of the software.

The University capitalizes major additions and renovations to plant assets; qualifying equipment with unit value in excess of \$5,000 and a useful life in excess of 2 years; qualifying software with a unit value of \$100,000 and a useful life in excess of one year; and library material purchases at cost.

When plant assets are sold, retired, or otherwise disposed of, the carrying value at cost, estimated historical cost, or fair market value at date of gift, where applicable, is removed from the investment in plant subgroup. The discarded library volumes are removed annually from the investment in plant subgroup at average cost. In accordance with practices followed by governmental educational institutions, depreciation on physical plant and equipment is not recorded.

Property and equipment of the component units are valued at cost and are depreciated using the straight-line method over the estimated useful lives of the respective assets. Useful lives range from 3 to 23 years for equipment, from 7 to 39 years for leasehold improvements, and from 10 to 40 years for capitalized leased assets. Maintenance and repairs are charged to expense as incurred; major renewals and betterments are capitalized as leasehold improvements. When property or equipment is sold or retired, the related cost and accumulated depreciation are removed from the accounts and any gain or loss is recognized.

Capitalized Interest

The University capitalizes as a component of construction in progress interest cost in excess of earnings on debt associated with the capital projects. Therefore, asset values in the investment in plant subgroup include such interest costs.

Cash and Cash Equivalents

The amounts shown in the financial statements in University funds as "cash and cash equivalents" represent petty cash, cash on deposit with the State Treasurer, cash invested in various instruments by the State Treasurer as part of the State's internal cash management pool, and cash invested in various short-term instruments by the State Treasurer and held in separate agency accounts. For the component units, cash and cash equivalents include cash on hand, cash on deposit and repurchase agreements with local banks, and certain funds invested with investment managers. The component units consider all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Most State agencies including the University participate in the State's internal cash management pool. Because the cash management pool operates as a demand deposit account, amounts invested in the pool are classified as cash and cash equivalents. The State Treasurer administers the cash management pool. The pool includes some long-term investments such as obligations of the United States and certain agencies of the United States, obligations of the State of South Carolina and certain of its political subdivisions, certificates of deposit, collateralized repurchase agreements and certain corporate bonds. For credit risk information pertaining to the internal cash management pool, see the deposits disclosures in Note 3.

The State's internal cash management pool consists of a general deposit account and several special deposit accounts. The State records each fund's equity interest in the general deposit account; however, all earnings on that account are credited to the General Fund of the State. The University records and reports its deposits in the general deposit account at cost. The University reports its deposits in the special deposit accounts at fair value. Investments held by the pool are recorded at fair value. Interest earned by the University's special deposit accounts is posted to the University's account at the end of each month and is retained by the University. Interest earnings are allocated based on the percentage of the University's accumulated daily interest income receivable to the total income receivable of the pool. Reported (interest/investment) income includes interest earnings at the stated rate, realized gains/losses, and unrealized gains/losses arising from changes in the fair value on investments held by the pool. Realized gains and losses are allocated daily and are included in the accumulated income receivable. Unrealized gains and losses are allocated at year end based on the University's percentage ownership in the pool.

Some of the University's accounts with the State Treasurer are not included in the State's internal cash management pool because of restrictions on the use of the funds. For those accounts, cash equivalents include investments in short-term, highly liquid securities having an initial maturity of three months or less at the time of acquisition.

For the University's funds not held by the State Treasurer, cash equivalents include investments in short-term, highly liquid securities having a maturity at the time of purchase of three months or less.

Accounts and Loans Receivable

The Medical Center, Charleston Memorial Hospital, and University Medical Associates grant credit without collateral to patients, most of whom are local residents and are insured under third-party payor agreements. Bad debt and contractual allowances for loans receivable and various accounts receivable, including patient accounts receivable for the University and CMH are established based upon losses and adjustments experienced in prior years and evaluations of the current account portfolios. UMA calculates actual contractual adjustment write-offs and actual bad debt write-offs for the year as a percentage of gross charges processed during the year. These percentages are then applied to the accounts receivable balance to determine the ending allowance balances. Historically, this method has provided adequate allowances for both contractual adjustments and bad debts.

Pharmaceutical Education Development Foundation's contracts receivable at June 30, 2000, consist of accounts with pharmaceutical companies of various sizes in various geographical areas throughout the world. For the year ended June 30, 2000, PEDF received approximately 36% of its sales/contract income under contracts from three customers. The allowance for doubtful accounts of PEDF is based on management's evaluation of outstanding accounts receivable at the end of the year.

MUSC Foundation for Research Development writes off accounts receivable when deemed uncollectible. Management did not record an allowance for uncollectible accounts based on its review of the accounts.

Prepaid Items

Expenditures for insurance and similar services paid for in the current or prior fiscal years and benefiting more than one accounting period are allocated among accounting periods. For the University, amounts reported in this asset account consist primarily of insurance premiums, subscriptions, lease payments, and deposits on equipment not yet received. Charleston Memorial Hospital's and University Medical Associates' amounts consist primarily of prepaid lease payments. PEDF's and MFRD's amounts consist primarily of prepaid insurance premiums.

Deferred Charges and Intangible Assets

Deferred charges for bond issuance costs of University Medical Associates and Medical University Facilities Corporation are reported as assets and are amortized over the lives of the bond issues on a straight-line basis. Amortization of these charges in the current fiscal year was \$134,286 for UMA and \$16,928 for MUFC. Accumulated amortization as of June 30, 2000, was \$147,141 and \$81,819 for UMA and MUFC, respectively.

Intangible assets of UMA consist primarily of amounts paid for goodwill, medical records, noncompete agreements, and other costs associated with the purchases of medical practices by UMA subsidiaries. These intangibles are being amortized over periods ranging from 5 to 15 years using the straight-line method. Amortization expense was \$623,839 in fiscal year 2000.

Deferred Loss on Refunding of Debt

The deferred loss related to the partial refunding of UMA's 1994 and 1997 SAVRS Direct Note Obligations is amortized as a component of interest expense over the remaining terms of these obligations using the straight-line method.

Rebatable Arbitrage

Arbitrage involves the investment of proceeds from the sale of tax-exempt securities in a taxable investment that yields a higher rate, resulting in income in excess of interest costs. Federal law requires entities to rebate to the government such income on tax-exempt debt if the yield from those earnings exceeds the effective yield on the related tax-exempt debt issued. The federal government only requires that arbitrage be calculated, reported, and paid every five years or at maturity of the debt, whichever is earlier. However, the potential liability is calculated annually for financial reporting purposes. Arbitrage expenditures are valued using the rebate method. The expenditure and liability, if any, are recorded in the retirement of indebtedness subgroup and a reserve fund to liquidate the liability is established.

Information Technology Costs

Non-capitalizable information technology costs are separately budgeted and accounted for by functional classification.

Intraentity Transactions and Balances

Transfers between the University and its blended component units and among blended component units are reported as nonmandatory transfers. Similarly, receivables and payables between the University and its blended component units are reported as due from and due to other funds. Current amounts due to/from the same funds are reported net on the balance sheet only if there is a legal right to the offset. In addition, transfers and receivables/payables balances between the primary entity and its blended component units or among blended component units are classified separately as interfund transactions and balances.

Transactions that would be treated as revenue or expenditures if they involved organizations external to the University are accounted for as revenues and expenditures in the funds and for the component units involved. Reimbursement transactions for expenditures initially made by one fund or component unit that are applicable to another are recorded as expenditures in the reimbursing fund or component unit. Expenditures initially made by the University for related parties or other external parties and reimbursed by those parties are eliminated.

Income Taxes

The University and the Authority are political subdivisions of the State of South Carolina and are consequently exempt from federal and state income taxes.

Charleston Memorial Hospital is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Service Code and is exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. CMH has been classified as other than a private foundation by the Internal Revenue Service.

University Medical Associates is a not-for-profit organization as described in Internal Revenue Code Section 501(c)(3) and related income is exempt from federal income tax under Code Section 501(a). Carolina Health Management Services, a UMA component unit, converted from a for-profit corporation to a nonprofit corporation in January, 2000. In the event that the UMA's taxable subsidiaries have taxable income from time to time, each company is responsible for its respective income tax.

Medical University Facilities Corporation is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal income taxes on related income under Code Section 501(a). MUFC has been classified by the Internal Revenue Service as other than a private foundation.

As a not-for-profit organization described in Internal Revenue Code Section 501(c)(3), Pharmaceutical Education and Development Foundation is exempt from federal income taxes on related income under Code Section 501(a). PEDF has been classified by the Internal Revenue Service as other than a private foundation and bases its tax exempt status on the PEDF's support of the University.

MUSC Foundation for Research Development as a not-for-profit organization described in Internal Revenue Code Section 501(c)(3) has received exemption from federal income taxes on related income under Code Section 501(a). However, any income from certain activities not directly related to MFRD's tax exempt purpose would be subject to taxation as unrelated business income. In addition, MFRD qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and to be classified as an organization that is not a private foundation under Section 509(a)(2).

Indirect Cost Recoveries

The University records restricted current funds revenue for governmental and private grants and contracts in amounts equal to direct costs incurred. The University reports as unrestricted revenue recoveries of indirect costs applicable to sponsored programs at negotiated fixed rates for each year. The recoveries are also recorded as additions and deductions of restricted current funds. Indirect cost recoveries must be remitted to the State General Fund except those received under research and student aid grants which may be retained by the University. Also, after January 1, 1999, federal grants and contracts whose annual award is two hundred thousand dollars or less are exempted from the requirement to remit recoveries to the State General Fund.

Deferred Revenues

In unrestricted current funds, deferred revenues consist primarily of student tuition and fees collected in advance for the summer and fall academic terms. Revenues are recognized in the period in which the sessions are predominantly conducted and services are provided or the semester for which the fee is applicable and earned.

Deferred revenues of MUSC Foundation for Research Development and Pharmaceutical Education and Development Foundation represent the amount of cash that was collected on contracts for services that had not been performed at year end.

Fee Waivers

Student tuition and fees revenues include all such amounts assessed against students (net of refunds) for educational purposes even in those cases in which there is no intention of collection. These revenue amounts are offset by equal expenditures. The amounts of such remissions or waivers are recorded and classified as scholarships and fellowships expenditures or as staff benefits in the applicable current funds functional expenditure categories. State law provides that educational fee waivers may be offered to no more than two percent of the undergraduate student body.

Educational Department Revenue

Revenues from sales and services of educational departments generally consist of amounts received from instructional, laboratory, research, and public service activities that incidentally create goods and services which may be sold to students, faculty, staff, and the general public. The University receives such revenues primarily from seminar fees, dental clinic services, pharmacy sales, and sales of supplies and other services.

Net Patient Service Revenue

The Medical Center, Charleston Memorial Hospital, and University Medical Associates have agreements with third party payors including Medicare and Medicaid that provide for reimbursement at amounts different from established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. UMA is reimbursed by its major insurers (Medicare, Medicaid, and Blue Shield) based upon a fee schedule they have developed for physician services. These insurers audit UMA's claims at various times during the year.

Charity Care

The Medical Center, Charleston Memorial Hospital, and University Medical Associates provide care to patients who meet certain criteria under charity care policies without charge or at amounts less than established rates. Since management does not expect payment for charity care, the estimated charges are excluded from revenue.

The approximate amounts estimated for charity care using established rates and gross charges for charity care as a percentage of total gross charges for the year ended June 30, 2000, were as follows:

The Medical Center	\$ 20,313,000	3.3%
Charleston Memorial Hospital	\$ 5,904,000	33.3%
University Medical Associates	\$ 6,838,000	3.0%

Other Academic Division and Medical Center Revenues

Other Academic Division revenues consist primarily of rental revenue, Student Wellness Center revenues, Wickliffe House revenues, and reimbursements from various hospitals for housestaff services. Other Medical Center revenues consist primarily of cafeteria and gift shop sales.

Compensated Absences

Generally all permanent full-time State employees and certain part-time employees scheduled to work at least one half of the agency's workweek are entitled to accrue and carry forward at calendar year end maximums of 180 days sick leave and of 45 days annual vacation leave. The University's policy enables full-time faculty members to accrue and carry forward at fiscal year end a maximum of 45 days annual vacation leave. Policies regarding sick leave for nonteaching personnel also apply to faculty members. Any employee who works on a holiday is allowed to take compensatory time within one year. Upon termination of State employment, employees are entitled to be paid for accumulated unused annual vacation leave up to the maximum, but are not entitled to any payment for unused sick leave. The compensated absences liability includes accrued annual leave and compensatory holiday leave earned for which the employees are entitled to paid time off or payment at termination. The University calculates the compensated absences liability based on recorded balances of unused leave for which the employer expects to compensate employees through paid time off or cash payments at termination. That liability is inventoried at fiscal year end current salary costs and the cost of the salary related benefit payments and is recorded in unrestricted current funds. The net change in the liability is recorded in the current year in the applicable current funds functional expenditure categories.

Charleston Memorial Hospital accrues leave for each employee based on position and length of service. The maximum leave allowed to be accrued per employee is 360 hours which will be compensated for if unused upon termination. The entire unpaid liability for which the employer expects to compensate employees through paid time off or cash payments, inventoried at fiscal year end current salary costs and the cost of the salary related benefit payments is recorded in operating expenses.

University Medical Associates employees earn annual leave at rates varying between 10 and 20 days per year to a maximum of 30 days, depending on employee classification and length of service. The maximum annual carryover is 45 days. Employees that were formerly employed by the Professional Staff Office with accumulated annual leave in excess of the maximum carryover were allowed to retain the prior leave accumulated. The entire unpaid liability for which the employer expects to compensate employees through paid time off or cash payments, inventoried at fiscal year end current salary costs and the cost of the salary related benefit payments is recorded in operating expenses.

Regular employees of MUSC Foundation for Research Development are granted vacation benefits which accrue on a monthly basis. The employees are entitled to accrue vacation leave not to exceed 360 hours upon termination. Accumulated vacation leave is recorded at current fiscal year end salary costs as an expense and liability.

Restricted and Unrestricted Revenue and Support

Contributions and other support received by MUSC Foundation for Research Development and Pharmaceutical Education and Development Foundation are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence or nature of any donor restrictions. Donor restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenditures/expenses and affect disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

Comparative Amounts and Totals - Memorandum Only Columns

Amounts in the "Totals - Memorandum Only" columns of the balance sheet and the statement of changes in fund balances present an aggregation of the financial statement line items to facilitate financial analysis. Such amounts are not comparable to a consolidation and do not present financial information in conformity with generally accepted accounting principles. Interfund eliminations have not been made in the aggregation of this data.

THE MEDICAL UNIVERSITY OF SOUTH CAROLINA

Comparative amounts and totals for the prior year are included to provide a summarized comparison with current year amounts. The prior year totals are not intended to present all of the information necessary for a fair presentation of financial position and operations in accordance with generally accepted accounting principles. Certain prior year amounts have been restated for the prior period adjustments and reclassifications as detailed in Note 23.

2. STATE APPROPRIATIONS

The Medical University of South Carolina is granted an annual appropriation for operating purposes as authorized by the General Assembly of the State of South Carolina. State appropriations are recognized as revenue when received and available. Amounts that are not expended by fiscal year-end lapse and are required to be returned to the General Fund of the State unless the University receives authorization from the General Assembly to carry the funds over to the next year.

The original appropriation is the University's base budget amount presented in the General Funds column of Section 5MA-MC of Part 1A of the 1999-00 Appropriation Act. The following is a reconciliation of the original appropriation as enacted by the General Assembly to state appropriations revenue reported in the financial statements for the fiscal year ended June 30, 2000:

	<u>AHEC</u>	<u>Academic Division</u>	<u>Medical Center</u>	<u>Total</u>
Original Appropriation	\$ 15,550,764	\$ 88,431,323	\$ 19,677,828	\$ 123,659,915
State Budget and Control Board Allocations:				
Employee Base Pay Increases and Related				
Employee Benefits (Proviso 63C.12.)	62,017	2,482,817	345,836	2,890,670
Deferred Compensation Match		75,162		75,162
Appropriation Allocations from the State Commission on Higher Education:				
From Capital Reserve Fund Appropriations for Additional Formula Funding (June 1999 Joint Resolution R201,H369)	2,151,593	5,808,638	698,408	8,658,639
From the Children's Education Endowment Fund for:				
Palmetto Fellows Scholarship		17,500		17,500
Need-Based Grants		43,422		43,422
For Life Scholarships (1998 Act 418)		220,000		220,000
For Access and Equity Desegregation Funding (Proviso 5A.6.)		36,598		36,598
For Performance Funding (Proviso 5A.19.)	558,742	3,182,770	570,704	4,312,216
From Supplemental Appropriations of 1999 Surplus State General Fund Revenues (Part IV of the 2000 Appropriation Act) for:				
Performance Funding Increase	174,920	457,797		632,717
Rural Physician	12,000			12,000
Nursing Recruitment	1,485			1,485
From the Higher Education matching gift fund for academic endowment match		180,160		180,160
Appropriation Transfer from Clemson University for Agromedicine Program		<u>293,000</u>		<u>293,000</u>
State Appropriation Revenue	18,511,521	101,229,187	21,292,776	141,033,484
Less: Higher Education Grant/Scholarship Funding Reported in Restricted Current Funds		<u>1,109,344</u>		<u>1,109,344</u>
Funding Reported in Unrestricted Current Funds	<u>\$ 18,511,521</u>	<u>\$ 100,119,843</u>	<u>\$ 21,292,776</u>	<u>\$139,924,140</u>

Proviso 72.48 of the 1999-2000 Appropriation Act authorized each agency to bring forward unspent State General Fund appropriations from the prior year into the current fiscal year up to a maximum of ten percent of its original appropriation less any appropriation reductions. Agencies which have separate carry-forward authority had to exclude the amount brought forward by such separate authority from their base for purposes of calculating the ten percent carry-forward.

Proviso 72.44 of the 2000-01 Appropriation Act authorizes agencies to carry forward unspent appropriations up to a maximum of ten percent with limitations similar to those for the prior year. Pursuant to this proviso the University carried forward \$492,305 to fiscal year 2001.

In addition to the state appropriation revenue, the University received \$828,753 in research grants from the Commission on Higher Education from the Supplemental Appropriation of 1999 Surplus State General Fund revenues (Part IV of the 2000 Appropriation Act): \$808,996 for Research Initiative Grants and \$19,757 for Instructional Technology Incentive Grants. These amounts are reported as state grant revenue in the restricted current fund.

THE MEDICAL UNIVERSITY OF SOUTH CAROLINA

3. DEPOSITS AND INVESTMENTS

All deposits and investments of the University are under the control of the State Treasurer, who, by law, has sole authority for investing State funds. Deposits and investments of the University's component units are not under the State Treasurer's control.

The following schedule reconciles deposits and investments within the notes to the balance sheet amounts:

<u>Balance Sheet</u>		<u>Notes</u>	
Cash and cash equivalents:		The Medical University of South Carolina:	
The Medical University of South Carolina	\$ 135,867,378	Cash on hand	\$ 84,800
Charleston Memorial Hospital	2,052,494	Deposits held by State Treasurer	125,552,443
University Medical Associates	27,181,124	Investments	10,230,135
Medical University Facilities Corporation	3,320,113	Charleston Memorial Hospital:	
Pharmaceutical Education and Development Foundation	39,213	Cash on hand	600
MUSC Foundation for Research Development	2,646,725	Other deposits	(244,648)
Medical University Hospital Authority	<u>2,083,333</u>	Investments	2,296,542
Total cash and cash equivalents	<u>173,190,380</u>	University Medical Associates:	
Investments:		Cash on Hand	18,495
University Medical Associates	5,546,808	Other Deposits	2,322,050
Medical University Facilities Corporation	529,168	Investments	30,387,387
MUSC Foundation for Research Development	<u>7,895,965</u>	Medical University Facilities Corporation:	
Total investments	<u>13,971,941</u>	Other deposits	3,320,113
		Investments	529,168
		Pharmaceutical Education and Development Foundation:	
		Other deposits	39,213
		MUSC Foundation for Research Development:	
		Other deposits	3,267,129
		Investments	
		Medical University Hospital Authority:	
		Other deposits	<u>2,083,333</u>
7,275,561		Total	<u>\$ 187,162,321</u>
Total	<u>\$ 187,162,321</u>		

Deposits Held by State Treasurer

State law requires full collateralization of all State Treasurer bank balances. The State Treasurer must correct any deficiencies in collateral within seven days. Information pertaining to the reported amounts, fair values, and credit risk of the State Treasurer's investments is disclosed in the Comprehensive Annual Financial Report of the State of South Carolina.

In the University's accounting records (\$724,092) of the \$125,552,443 identified as "Deposits held by State Treasurer", is attributable to unrealized losses. As disclosed in Note 6, retirement of indebtedness funds include \$12,409,964 in restricted cash held by the State Treasurer for debt service reserve funds as required by the bond indentures.

Other Deposits

The governmental component units' other deposits are categorized to give an indication of the level of risk assumed by the entity at year end. The credit risk categories are concerned with custodial credit risk, which is the risk that a government will not be able to recover deposits if the depository financial institution fails or to recover the value of collateral securities that are in the possession of an outside party if the counterparty to the deposit transaction fails. There are three categories of deposit credit risk as follows:

1. Insured or collateralized with securities held by the entity or by its agent in the entity's name.
2. Collateralized with securities held by the pledging financial institution's trust department or agent in the entity's name.
3. Uninsured or uncollateralized, including any bank balance that is collateralized with securities held by the pledging financial institution, or by its trust department or agent, but not in the entity's name.

At June 30, 2000, deposits of the governmental component units were as follows:

	<u>Category</u>			<u>Bank Balance</u>	<u>Reported Amount</u>	
	<u>1</u>	<u>2</u>	<u>3</u>			
Charleston Memorial Hospital	\$ 192,102	\$ —	\$ —	\$ 192,102	\$ (244,648)	
University Medical Associates	500,000	—	2,679,581	3,179,581	2,322,050	
Medical University Facilities Corporation	—	—	3,320,113	3,320,113	3,320,113	
Medical University Hospital Authority	2,083,333	—	—	—	2,083,333	2,083,333

THE MEDICAL UNIVERSITY OF SOUTH CAROLINA

As of June 30, 2000, University Medical Associates' balances included certificates of deposit with carrying amounts totaling \$905,625 which serve as collateral for a loan of Lowcountry Real Property, LLC.

At June 30, 2000, Medical University Facilities Corporation's balance included \$1,824,363 for restricted debt service reserve fund (see Note 6).

Pharmaceutical Education and Development Foundation maintains its cash accounts at several financial institutions. All cash accounts are insured in aggregate by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000. At June 30, 2000, PEDF's bank balances totaled approximately \$105,000, all of which was covered by FDIC.

MUSC Foundation for Research Development maintains cash and cash equivalent accounts at several financial institutions. Accounts maintained at banking institutions are insured by the Federal Deposit Insurance Corporation up to \$100,000 per institution. Cash and cash equivalents exceeding federally insured limits totaled approximately \$936,000 at June 30, 2000. Cash accounts maintained at investment firms are insured by the Securities Investor Protection Corporation (SIPC) up to \$100,000 per institution. Under SIPC coverage, money market funds are considered securities and are covered under higher limits. At June 30, 2000, MFRD's cash balance at investment firms were fully covered under SIPC coverage.

Investments

Investments are stated at fair value. Purchases and sales are accounted for on the transaction date. Bond discounts and premiums are amortized.

The University and the governmental component units' investments are categorized to give an indication of the level of risk assumed by the entity at year end. The credit risk categories are concerned with custodial credit risk, which is the risk that a government will not be able to recover the value of investment or collateral securities that are in possession of an outside party if the counterparty to the investment transaction fails. There are three categories of investment credit risk:

1. Insured or registered, or securities held by the government or its agent in the government's name.
2. Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the government's name.
3. Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the government's name.

At June 30, 2000, the investment balances were as follows:

	1	2	3	
	Fair Value			
Medical University of South Carolina Repurchase agreements	\$ 10,099,774	\$ -	\$ 130,361	\$ 10,230,135
Charleston Memorial Hospital Repurchase agreements	\$ 2,296,542	\$ -	\$ -	\$ 2,296,542
University Medical Associates Repurchase agreements	\$ -	\$ -	\$ 19,525,685	\$ 19,525,685
Federal Home Loan Bonds	-	-	3,536,979	3,536,979
Total categorized investments	\$ -	\$ -	\$ 23,062,664	23,062,664
Investments not subject to categorization: Mutual funds			7,324,723	
Total investments			\$ 30,387,387	

The highest balance of repurchase agreements during the year in category 3 was approximately \$1,800,000 and \$19,526,000 for The Medical University of South Carolina and University Medical Associates, respectively. UMA makes overnight investments in repurchase agreements and the balance invested depends on daily cash collections. As of June 30, 2000, the UMA investments included the \$9,080,953 restricted debt service reserve fund (see Note 6).

For Medical University Facilities Corporation legally authorized investments include government and government agency obligations; deposits that are fully insured by FDIC; short-term bank obligations which are rated A-1+ by Standard and Poor's Corporation (S&P); repurchase agreements meeting certain requirements; various debt obligations, money market

THE MEDICAL UNIVERSITY OF SOUTH CAROLINA

funds, and other securities meeting certain S&P rating levels; and investment contracts satisfactory to S&P. Medical University Facilities Corporation investments consist of investment agreements under which they are to be paid interest with guaranteed rates from 5.78% to 6.2% and open ended maturity dates. These investments are not subject to credit risk categorization and their fair value is not readily determinable. As of June 30, 2000, the MUFC investments included the \$213,000 restricted debt service reserve fund (see Note 6).

Investments of MFRD at of June 30, 2000, consisted of government debt securities, commercial paper and stock with amortized cost of \$7,324,923, fair value of \$7,275,561, and unrealized depreciation of \$49,362.

Investments in Partnerships

UMA accounts for investments in partnerships either by the cost or equity method. If UMA is a 20% or more owner and exercises significant influence over the company, then UMA records the investment under the equity method, whereby UMA's percentage of the net profit/loss increases or decreases the investment and the gain/loss is recorded in the income statement. If UMA owns less than 20%, the investment is recorded at cost.

On June 30, 1999, UMA was a 10% partner in Hilton Head Health Systems, L.P. UMA's investment was \$3,093,874, stated at cost since it held a minority interest. On June 30, 2000, UMA sold the entire interest for \$9,250,000, thereby recognizing a gain of \$6,156,126.

On May 8, 1998, Carolina Primary Care Physicians, P.A., a blended component unit of UMA, entered into a partnership with several physicians and medical practices by purchasing a 35% interest in Lowcountry Medical Group, LLC (LCMG). This investment is recorded on the equity method. UMA's ownership interest increased to 38.89% from 35% due to members exiting LCMG during the year ended June 30, 2000. UMA's investment in the partnership at June 30, 2000, is \$2,733,758, which includes a beginning investment balance of \$3,935,908, legal fees of \$25,000, net loss of \$312,531, and less a distribution of \$914,619 for the year ended June 30, 2000.

During the year ended June 30, 2000, the members of LCMG invested in Lowcountry Real Property LLC (LCRP). UMA made an initial contribution of \$350 to acquire a 35% interest in LCRP. UMA's ownership interest increased to 38.89% from 35% due to members exiting LCRP during the year ended June 30, 2000. This investment is recorded on the equity method, whereby UMA records 38.89% of all net profits and losses at June 30, 2000. At June 30, 2000, UMA's investment is \$888,719, which includes an initial contribution of \$350 and an additional contribution of \$888,369. For the year ended June 30, 2000, there was no income or loss generated by LCRP.

4. INVENTORIES

The University and Charleston Memorial Hospital value supply inventories at the lower of cost, using the first-in first-out method, or market.

The following is a summary by location of values at June 30, 2000.

<u>Location</u>	<u>Medical University of South Carolina</u>	<u>Charleston Memorial Hospital</u>
General stores	\$ -	\$ 50,731
Operating room	7,027,589	-
Central supply	411,465	24,372
Pharmacy	3,560,798	110,949
Dental	44,066	-
Other	-	188,186
	<u>\$ 11,043,918</u>	<u>\$ 374,238</u>

Inventory of Pharmaceutical Education and Development Foundation, which consists of pharmaceutical ingredients and supplies, is valued at cost using the first-in, first-out method.

5. STATE CAPITAL IMPROVEMENT BONDS

In the current and prior fiscal years, the State authorized funds for improvements and expansion of University facilities using the proceeds of state capital improvement bonds. As capital projects are authorized by the State Budget and Control Board, the bond proceeds are allocated to the projects. When the funds are authorized, the University records the proceeds as revenue and the bond issue costs as expenditures in the unexpended plant funds subgroup. The University is not obligated to repay these funds to the State. These authorized funds can be requested as needed once State authorities have given approval to begin specific projects. The total balance receivable for the undrawn portions of the

THE MEDICAL UNIVERSITY OF SOUTH CAROLINA

authorizations is reported in the balance sheet as "capital improvement bonds proceeds receivable" in the unexpended plant funds subgroup. The \$10,000,000 in bond proceeds allocated by Act 28 in 1999 was to fund an expansion of the Hollings Cancer Center.

A summary of the activity in the balances available from this authorization during the year ended June 30, 2000 follows:

<u>Act</u>	<u>Total Authorized</u>	<u>Amount Drawn in Prior Years</u>	<u>Amount Drawn in Fiscal Year Ended June 30, 2000</u>	<u>Balance Authorized June 30, 2000</u>
28 of 1999	\$ 10,000,000	\$ -	\$ -	\$ 10,000,000
111 of 1997	8,752,086	1,064,707	2,409,040	5,278,339
	<u>\$ 18,752,086</u>	<u>\$ 1,064,707</u>	<u>\$ 2,409,040</u>	<u>\$ 15,278,339</u>

6. BONDS, CERTIFICATES OF PARTICIPATION, AND NOTES PAYABLE

Bonds Payable

At June 30, 2000, the University's bonds payable consisted of the following:

	<u>Interest Rates</u>	<u>Maturity Dates</u>	<u>Balance June 30, 2000</u>
State Institution Bonds			
1991 C series dated 5/17/91	6%	03/01/06	\$ 2,175,000
1992 A series dated 5/1/92	5.8 - 6%	03/01/07	3,730,000
1996 A series dated 7/1/96	5.4 - 5.5%	03/01/11	2,695,000
2000 series dated 4/1/00	4.8 - 6.25%	03/01/20	28,000,000
Parking Facilities Revenue Bonds			
1986 series dated 12/3/86	7 - 7.375%	07/01/06	3,625,000
Hospital Facilities Revenue Bonds			
1990 series dated 7/17/90:			
Series A	7 - 7.2%	07/01/05	31,080,000
Series B	7 - 7.2%	07/01/05	5,205,000
1993 series dated 6/1/93	5.25 - 5.6%	07/01/13	19,715,000
1999 series dated 8/1/99	5.5 - 6%	07/01/19	53,035,000
Total			<u>149,260,000</u>
Less: Amount Included in Unexpended Plant Fund			<u>83,730,000</u>
Amount Included in Investment in Plant			<u>\$ 65,530,000</u>

The various bond indentures restrict the use of particular revenue sources. State Institution Bonds are general obligation bonds of the State backed by the full faith, credit, and taxing power of the State. Student tuition paid to the University is restricted up to the amount of the annual debt requirements for the payment of State Institution Bonds. Parking fees, except on the Harborview Tower parking facility, paid to the University are restricted for the payment of principal and interest on parking facilities revenue bonds. The parking facilities revenue bonds series 1986 require the University to provide net revenues available for debt service of not less than 120% of the debt service payments to become due in each bond year beginning with the bond year beginning July 1, 1987. In fiscal year 2000, parking fees of \$706,887 were transferred to the retirement of indebtedness funds. All revenue or other monies attributable to Medical Center facilities, except those from state appropriations and those monies which are restricted by donors or other sources for purposes inconsistent with their use for debt service, are pledged for the payment of principal and interest on the hospital facilities revenue bonds. In fiscal year 2000, the University transferred \$11,661,603 from the Medical Center accounts to the retirement of indebtedness funds as required by the bond resolution to meet principal and interest payments. In addition, the University must establish and maintain various funds with the State Treasurer for payment of principal and interest for its parking and hospital facilities revenue bonds. Payment of the principal and interest on the 1993 series hospital facilities revenue bonds is insured under a municipal bond insurance policy.

With the exception of the 1993 series, the hospital facilities revenue bonds may be redeemed at a premium or at par prior to the mandatory redemption dates and final maturities at the option of the University. The bond redemption dates range between July 1, 2000, and July 1, 2020, and the redemption price (expressed as a percentage of par) ranges from 102 to 100. The 1993 series are not subject to optional redemption.

At the option of the University, the parking facilities revenue bonds may be redeemed prior to maturity in whole at any time or if in part in inverse order of maturity and only on a bond payment date. The redemption dates range from July 1, 2000, to July 1, 2006, at the redemption price (expressed as a percentage of par) of 100.

THE MEDICAL UNIVERSITY OF SOUTH CAROLINA

The State institution bonds issued for the University are subject to redemption at the option of the State, in whole or if in part in inverse chronological order of maturity. The redemption dates range from September 1, 2000, to March 1, 2020, and the redemption price (expressed as a percentage of par) ranges from 102 to 100.

All of the bonds are payable in semiannual installments plus interest. Amounts including interest required to complete payment of the revenue bond obligations as of June 30, 2000, are as follows:

Year Ending June 30,	Principal	Interest	Total
2001	\$ 6,500,000	\$ 6,748,613	\$ 13,248,613
2002	6,940,000	6,295,562	13,235,562
2003	9,165,000	5,762,406	14,927,406
2004	9,765,000	5,142,022	14,907,022
2005	10,415,000	4,476,789	14,891,789
Thereafter	<u>69,875,000</u>	<u>28,141,574</u>	<u>98,016,574</u>
Total	<u>\$ 112,660,000</u>	<u>\$ 56,566,966</u>	<u>\$ 169,226,966</u>

Amounts as of June 30, 2000, including interest required to complete payment of the State general obligation bonds issued for the University are as follows:

Year Ending June 30,	Principal	Interest	Total
2001	\$ 1,565,000	\$ 1,861,509	\$ 3,426,509
2002	1,645,000	1,893,779	3,538,779
2003	1,745,000	1,796,251	3,541,251
2004	1,840,000	1,692,081	3,532,081
2005	1,940,000	1,582,081	3,522,081
Thereafter	<u>27,865,000</u>	<u>11,605,667</u>	<u>39,470,667</u>
Total	<u>\$ 36,600,000</u>	<u>\$ 20,431,368</u>	<u>\$ 57,031,368</u>

Total principal payments on bonds for the year ended June 30, 2000 were \$9,060,000. Total interest expense relating to bonds payable for the year ended June 30, 2000 was \$7,342,193.

Receipts from tuition, matriculation fees, and other fees legally designated solely for the purpose of debt retirement for State general obligation bonds issued for the University are recorded directly in the funds for retirement of indebtedness as student tuition and fees revenues. Mandatory transfers from auxiliary enterprises revenue for debt retirement on parking facilities revenue bonds are reflected as transfers from the unrestricted current funds to the funds for retirement of indebtedness subgroup of the plant funds group.

Lease Revenue Bonds Payable

On September 20, 1995, Medical University Facilities Corporation issued lease revenue bonds series 1995A in the amount of \$12,729,000 and series 1995B in the amount of \$472,000. Related bond issue costs totaling \$356,900 were capitalized as deferred charges to be amortized over the lives of the bonds. The bonds were issued for the purpose of providing a portion of the payment for the costs of completing the acquisition and construction of the Strom Thurmond Biomedical Research Center. Interest rates range from 7.45% to 7.5%. The final maturity is in 2016, and the bonds are secured by the rental payments received under the capital lease as detailed in Note 9. The bond covenants require that MUFC establish and maintain funds with a trustee for the payment of principal and interest on the lease revenue bonds. Medical University Facilities Corporation paid \$356,000 in principal and incurred \$911,987 in interest expense on these bonds for the year ended June 30, 2000. The bonds may be redeemed, at the option of the Medical University Facilities Corporation, as directed by the University, in whole at any time or in part on any bond payment date at a redemption price equal to the principal to be redeemed plus accrued interest.

The future debt service requirements for the lease revenue bonds are as follows:

Year Ending June 30,	Principal	Interest	Total
2001	\$ 384,000	\$ 891,570	\$ 1,275,570
2002	412,000	862,470	1,274,470
2003	444,000	831,173	1,275,173
2004	478,000	797,491	1,275,491
2005	513,000	761,201	1,274,201
Thereafter	<u>9,828,000</u>	<u>5,051,090</u>	<u>14,879,090</u>
Total	<u>\$ 12,059,000</u>	<u>\$ 9,194,995</u>	<u>\$ 21,253,995</u>

Certificates of Participation Payable

Medical University Facilities Corporation issued certificates of participation dated December 1, 1991, which require a principal payment on January 1 of each year and interest payments each January 1 and July 1. Interest rates range from 5.6% to 7.5 %. The final maturity is in 2013, and the certificates are secured by the rental payments received under the capital lease (see Note 9) which correspond in amount and timing to the debt service payments detailed below. The covenants require that MUFC establish and maintain funds with a trustee for the payment of principal and interest on the certificates of participation. Medical University Facilities Corporation paid \$625,000 in principal and incurred \$1,173,432 in interest expense for the year ended June 30, 2000, on the certificates of participation payable. In the event that the University exercises its option to purchase the Medical University Facilities Corporation's interest in Harborview Office Tower, the certificates may be redeemed beginning January 1, 2002, at a premium prior to the mandatory redemption dates and final maturities at the option of the University. The redemption dates range between January 1, 2002, and January 1, 2005, and the redemption price (expressed as a percentage of the principal) ranges from 103 to 100.

The future debt service requirements for the certificates of participation are as follows:

Year Ending June 30,	Principal	Interest	Total
2001	\$ 670,000	\$ 1,151,244	\$ 1,821,244
2002	720,000	1,101,831	1,821,831
2003	775,000	1,048,731	1,823,731
2004	830,000	991,575	1,821,575
2005	890,000	930,363	1,820,363
Thereafter	<u>11,805,000</u>	<u>4,597,512</u>	<u>16,402,512</u>
Total	<u>\$ 15,690,000</u>	<u>\$ 9,821,256</u>	<u>\$ 25,511,256</u>

Direct Note Obligations

In fiscal year 1995, UMA issued \$55,000,000 in Direct Note Obligations, Series 1994 Select Auction Variable Rate Securities. On December 1, 1997, UMA issued an additional \$40,000,000 in Direct Note Obligations, Series 1997 Select Auction Variable Rate Securities. The Direct Note Obligations were issued for the purpose of providing payment for the costs of prepayment of its noncancelable lease obligation with Health Science Foundation and renovating and equipping Rutledge Tower. On December 31, 1999, UMA issued \$85,000,000 in Direct Notes Obligations, Series 1999A (\$39,400,000) and Series 1999B (\$45,600,000) Select Auction Variable Rate Securities. The proceeds were used to partially refund \$43,600,000 of 1994 and \$34,450,000 of 1997 Select Auction Variable Rate Securities and pay down two lines of credit. The current refunding met the requirements of a legal defeasance and the refunded portion of the Series 1994 and 1997 were removed from UMA's balance sheet.

As a result of the current refunding, UMA reduced its total debt service requirements by approximately \$19,400,000 which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of approximately \$10,600,000.

The variable rate of interest is set every 35 days on the direct note obligations. The obligations can be converted to fixed rate obligations at the option of UMA, with the consent of the bond insurer, at a rate to be determined by market conditions at the time of conversion.

UMA has entered into an interest rate swap agreement on \$10,000,000 of the remaining Series 1994, on the \$39,400,000 of the Series 1999A, and on the \$45,600,000 of the Series 1999B direct note obligations. Based on the swap agreement, UMA owes interest calculated at a fixed rate of 6.82% on the \$10,000,000 issue, 6.82% on the \$39,400,000, and 5.7% on the \$45,600,000 issue. If the actual floating variable rate exceeds these rates, the counterparty pays the differential to UMA. If the actual floating variable interest rate is less than these rates, UMA pays the counterparty. During the term of the swap agreement UMA effectively pays a fixed rate on the debt. UMA will be exposed to variable rates if the counterparty to this swap defaults or if the swap is terminated. During the year ended June 30, 2000, UMA received \$1,850,000 from the counterparty as a result of modification of the interest rate swap agreements that could adversely affect the interest swap payments if certain triggering events occur in the future. The \$1,850,000 is shown as a liability on UMA's balance sheet at June 30, 2000. For the year ended June 30, 2000, total interest costs incurred were \$7,017,818.

The Direct Note Obligations are subject to optional redemption at the option of the issuer on the second business day immediately preceding the regular interest payment date at 100% of the principal amount thereof plus accrued and unpaid interest. Payment of the principal and interest on the direct note obligations is insured under a bond insurance policy. The insurance policy will pay any remaining balance after debt service reserve funds are exhausted.

Direct Note Obligations, Series 1994, 1997, 1999A and 1999B Select Auction Variable Rate Securities outstanding at June 30, 2000, were \$101,750,000.

THE MEDICAL UNIVERSITY OF SOUTH CAROLINA

Debt service requirements to maturity are as follows:

Year Ending June 30,	Principal	Interest	Total
2001	1,600,000	6,704,457	8,304,457
2002	1,750,000	6,357,682	8,107,682
2003	1,400,000	6,739,108	8,139,108
2004	2,450,000	6,158,098	8,608,098
2005	1,900,000	6,423,545	8,323,545
Through 2027	92,650,000	77,663,028	170,313,028
Total	<u>\$ 101,750,000</u>	<u>\$ 110,045,918</u>	<u>\$ 211,795,918</u>

The obligation is collateralized by unrestricted receivables and leasehold property leased from Health Sciences Foundation (see Notes 9 and 11). Under the terms of the obligation agreement, interest, sinking, and debt service reserve funds were established with the master trustee and will be maintained as long as the obligations remain outstanding. The agreement, among others, limits incurrence of additional borrowing, disposition of certain properties, and requires that UMA satisfy certain measures of financial performance as long as the notes are outstanding.

Notes Payable

In fiscal year 1999, the University borrowed \$9,306,285 from a local bank. The note bears interest at the rate of 4.3% per annum and is payable in quarterly installments of \$830,775 including principal and interest. The final payment is due April 1, 2002.

In fiscal year 2000, the University borrowed \$11,603,739 from a local bank. The note bears interest at the rate 5.6% per annum and is payable in quarterly installments of \$1,057,386 including principal and interest. The final payment is due April 1, 2003.

The following is a summary of the activity related to the two notes:

Fiscal year 1999 activity:	
Note issued	\$ 9,306,285
Purchase capital assets	(5,645,631)
Fund operational expenditures	<u>(1,838,250)</u>
Unexpended at June 30, 1999	1,822,404
Fiscal year 2000 activity:	
Note issued	11,603,739
Purchase capital assets	(2,799,142)
Fund operational expenditures	(636,563)
Interest earned on unexpended balance	<u>239,697</u>
Unexpended at June 30, 2000	<u>\$ 10,230,135</u>

The \$10,230,135 of unexpended loan proceeds plus interest earnings is reflected as cash and cash equivalents in the unrestricted current fund. The carrying value of the assets held under these obligations is \$11,545,252.

The University paid \$2,970,402 in principal and incurred \$352,699 in interest expense on these notes in fiscal year 2000. The notes payable balance is reported as follows:

Unrestricted current fund	\$ 9,240,578
Investment in plant fund	<u>8,699,044</u>
	<u>\$ 17,939,622</u>

Amounts required to complete payment of the notes as of June 30, 2000 are as follows:

Year Ending June 30,	Principal	Interest	Total
2001	\$ 7,701,201	\$ 910,364	\$ 8,611,565
2002	7,153,339	399,307	7,552,646
2003	<u>3,085,082</u>	<u>87,075</u>	<u>3,172,157</u>
Total	<u>\$ 17,939,622</u>	<u>\$ 1,396,746</u>	<u>\$ 19,336,368</u>

University Medical Associates has two notes payable collateralized by various medical equipment. These notes mature May 1, 2004, and require sixty monthly payments of \$4,097 which includes interest at 8%. UMA also has an outstanding note with a construction company payable in three quarterly installments of \$238,021 plus interest at a rate of prime plus one-half

THE MEDICAL UNIVERSITY OF SOUTH CAROLINA

percent. The note matures on March 21, 2001. The scheduled maturities are as follows:

Year Ending June 30,	Principal	Interest	Total
2001	\$ 751,617	\$ 56,838	\$ 808,455
2002	40,672	8,497	49,169
2003	44,047	5,121	49,168
2004	39,866	1,458	41,324
Total	<u>\$ 876,202</u>	<u>\$ 71,914</u>	<u>\$ 948,116</u>

UMA entered into a structured legal settlement of \$5,200,000 with the United States of America dated April 4, 2000 (see Note 29). A \$1,000,000 principal payment was paid during the year ended June 30, 2000. The remainder of the settlement is payable in five equal annual installments of \$840,000 plus interest at the Federal Funds rate on each anniversary date of the settlement agreement. The scheduled maturities are as follows using the Federal Funds rate in effect at June 30, 2000:

Year Ending June 30,	Principal	Interest	Total
2001	\$ 840,000	\$ 271,740	\$ 1,111,740
2002	840,000	217,392	1,057,392
2003	840,000	163,044	1,003,044
2004	840,000	108,696	948,696
2005	840,000	54,348	894,348
Total	<u>\$ 4,200,000</u>	<u>\$ 815,220</u>	<u>\$ 5,015,220</u>

University Medical Associates has two lines of credit with two financial institutions with a maximum borrowing limit of \$13,500,000 at one financial institution (60%) and \$9,000,000 at the other (40%), for a total of \$22,500,000 bearing interest at the 30 day LIBOR rate plus 2.75 percent. Loan proceeds, repayments, interest payments and fees must be allocated between the financial institutions according to the ratios indicated. The agreement expires on December 31, 2000, and the obligations are collateralized by the unrestricted receivables of UMA. There was a total of \$21,500,000 outstanding as of June 30, 2000. Total interest expense on notes payable was approximately \$1,666,000 for the year.

Pharmaceutical Education and Development Foundation has a \$200,000 line of credit with a local financial institution. guaranteed unconditionally by Health Sciences Foundation. At June 30, 2000, \$200,000 had been drawn on the line of credit. The interest rate is variable based in the bank's prime rate and is payable quarterly. As a subsequent event, PEDF paid off and retired this line of credit in August, 2000. PEDF also had an unsecured note payable dated December 14, 1998, due in 9 monthly payments.

PEDF has an interest free loan payable to the Health Sciences Foundation. At June 30, 2000, the balance of the loan was \$2,839,882. The loan is to be used to finance capital improvements and provide working capital. Although due on demand, it is not likely the debt will be called on within the next twelve months. Provisions of this debt call for voting board seats and conversion to equity rights in a for-profit entity anticipated to be spun off of PEDF.

The Medical University Hospital Authority has two lines of credit dated June 30, 2000 with a financial institution totaling \$35,000,000 and bearing interest at 94% to 96% of the 30-day LIBOR rate. The notes mature on December 30, 2000 and interest is payable monthly. The two notes are secured by a junior lien on all hospital revenues. There was a total of \$5,000,000 outstanding at June 30, 2000.

Reserve Funds

The debt service reserve requirements and balances for the University, Medical University Facilities Corporation, and University Medical Associates at June 30, 2000, consisted of the following:

	Reserve Requirement at <u>June 30, 2000</u>	Reserve Balance at <u>June 30, 2000</u>
The Medical University of South Carolina:		
Parking Facilities Revenue Bonds	\$ 711,318	\$ 712,635
Hospital Facilities Revenue Bonds	11,698,646	12,275,080
University Medical Associates:		
Direct Note Obligations	9,080,953	9,682,551
Medical University Facilities Corporation:		
Certificates of Participation	1,824,363	1,824,363
Lease Revenue Bonds	213,000	213,021

7. MEDICARE AND CHAMPUS COST REIMBURSEMENTS

Services provided patients under the Medicare and Champus programs are reimbursed at tentative rates with final settlements determined after submission of annual cost reports and audits by fiscal intermediaries.

At June 30, 2000, the Medical Center's amounts due (to) from Medicare and Champus (subject to final settlement) are as follows:

Period Ended June 30,	Medicare	Champus	Total
2000	\$ (1,339,798)	\$ 1,441,416	\$ 101,618
1999	815,686	X	815,686
1998	1,223,235	X	1,223,235
1997	(1,732,399)	X	(1,732,399)
1996	(58,125)	X	(58,125)
1995	(222,695)	X	(222,695)
1994	(97,286)	X	(97,286)
1993	153,171	X	153,171
Net due (to) from June 30, 2000	<u>\$ (1,258,211)</u>	<u>\$ 1,441,416</u>	<u>\$ 183,205</u>

At June 30, 2000, Charleston Memorial Hospital's amounts due (to) from the programs (subject to final approval) are as follows:

Period Ended June 30,	Medicare	Champus	Total
2000	\$ 45,000	\$ X	\$ 45,000
1999	(15,000)	X	(15,000)
1998	144,076	(1,095)	142,981
1997	60,055	X	60,055
Net due (to) from June 30, 2000	<u>\$ 234,131</u>	<u>\$ (1,095)</u>	<u>\$ 233,036</u>

Adjustments to cost reimbursements are recorded in the period in which they are determined by final settlement. Medicare and Champus cost reimbursements and adjustments are reflected in net patient service revenue. These two programs provide for settlements between estimated and actual pass through costs attributable to beneficiaries of these programs. The intermediary has a right to offset balances within each program.

8. CONSTRUCTION COSTS AND COMMITMENTS

The University has obtained the necessary funding for the acquisition, construction, renovation, and equipping of certain facilities which will be capitalized in the applicable plant asset categories upon completion. Management estimates that the University has sufficient resources available and/or future resources identified to satisfactorily complete the construction of such projects which are expected to be completed in varying phases over the next several years at an estimated total cost of \$349,000,000. Of the total estimated cost, approximately \$149,000,000 was unexpended at June 30, 2000. Through June 30, 2000, the University has capitalized substantially complete and in use projects costing approximately \$179,000,000 in the applicable plant asset categories. Of the unexpended balance at June 30, 2000, the University had remaining commitment balances of approximately \$12,000,000 with certain property owners, engineering firms, construction contractors, and vendors related to these projects. At June 30, 2000, the University had in progress other capital projects which are not to be capitalized when completed. These projects are for replacements, repairs, and/or renovations to existing facilities. Costs incurred to date on these projects amounted to approximately \$14,000,000 at June 30, 2000, and the estimated cost to complete was approximately \$4,000,000. At June 30, 2000, the University had remaining commitment balances of approximately \$3,000 with various vendors related to these projects. The University anticipates funding these projects out of current resources, current and future bond issues, private gifts, and hospital revenues.

Construction in progress for Pharmaceutical Education and Development Foundation consists of costs related to the equipping, design, and validation aspects of the new facility. There are no outstanding commitments on this project.

9. LEASE OBLIGATIONS

The University is obligated under various operating leases for the use of land, buildings and equipment and under capital leases for equipment. The University is obligated to Medical University Facilities Corporation, a component unit, under real property capital leases for the acquisition of the Harborview Office Tower and parking garage and for the acquisition of the Strom Thurmond Biomedical Research Center. The University's future commitments for capital leases and for operating leases having remaining noncancelable terms in excess of one year as of June 30, 2000, were as follows:

Year Ending	Capital Leases			Operating Leases	
June 30	Real Property	Equipment	Total	Real Property	Equipment
2001	\$ 3,098,914	\$ 500,730	\$ 3,599,644	\$ 5,762,699	\$ 535,161
2002	3,099,501	276,215	3,375,716	4,782,976	490,680
2003	3,101,401	200,458	3,301,859	3,456,618	302,993
2004	3,099,245	77,604	3,176,849	251,280	137,655
2005	3,098,033	10,086	3,108,119	-	68,827
Through 2016	<u>30,779,557</u>	<u>-</u>	<u>30,779,557</u>	<u>-</u>	<u>-</u>
Total minimum lease payments	46,276,651	1,065,093	47,341,744	<u>\$ 14,253,573</u>	<u>\$ 1,535,316</u>
Less interest	<u>20,184,961</u>	<u>108,702</u>	<u>20,293,663</u>		
Present value of minimum lease payments	<u>\$ 26,091,690</u>	<u>\$ 956,391</u>	<u>\$ 27,048,081</u>		

Capital Leases

During the current fiscal year, the University entered into capital leases for medical equipment in the total amount of \$64,419. Capital leases are generally payable in monthly installments from unrestricted current funds resources and have terms expiring in various years between 2001 and 2016. Equipment capital lease expenditures for fiscal year 2000 were \$532,679 of principal and \$61,735 of interest. Interest rates on equipment capital leases range from 1.5% to 8%. The real property lease expenditure includes \$875,299 of principal and \$2,105,717 of interest paid to Medical University Facilities Corporation.

The following is a summary of the carrying values of assets held under capital leases at June 30, 2000:

Copiers	\$ 638,285
Medical Equipment	2,254,587
Other Equipment	481,355
Land	2,335,580
Buildings	<u>45,041,133</u>
Total	<u>\$ 50,750,940</u>

Certain capital leases provide for renewal and/or purchase options. Generally, purchase options at bargain prices of one dollar are exercisable at the expiration of the lease terms.

Monthly payments are made to a financial institution as trustee under the capital lease with MUFC for the Strom Thurmond Biomedical Research Center and are based on the amount necessary to fund the payments due under the lease revenue bonds (see Note 6). These payment requirements are reduced by interest earned on the cash held by the trustee. The maximum interest rate on the lease, assuming no interest earnings, is 9.79 percent and the final maturity is in 2016. A portion of the building has been subleased to the Veterans Administration for a period of 20 years at an annual rent of \$1,264,670.

Monthly payments are made to a financial institution as trustee under the capital lease with MUFC for the Harborview Office Tower and are based on the amount necessary to fund the payments due under the certificates of participation payable (see Note 6). These payment requirements are reduced by interest earned on the cash held by the trustee. The maximum interest rate on the lease, assuming no interest earnings, is 9.749 percent and the final maturity is in 2013.

University Medical Associates has entered into capital lease agreements as lessee for leasehold improvements, computers, equipment and software. The interest rates on the capital leases range from 2.9 percent to 12.4 percent. These lease agreements have been recorded at the present value of future minimum lease payments as of the inception date in the accompanying financial statements. Interest costs on the capital leases was approximately \$245,000 for the year.

THE MEDICAL UNIVERSITY OF SOUTH CAROLINA

Following is an analysis of the leased property under the capital lease at June 30, 2000:

	<u>Computers and Equipment</u>	<u>Software</u>
Capitalized cost	\$ 2,669,707	\$ 106,615
Less accumulated depreciation	<u>957,257</u>	<u>72,854</u>
Total	<u>\$ 1,712,450</u>	<u>\$ 33,761</u>

Included in depreciation expense for the year ended June 30, 2000, was \$423,367 for these capital leases. The capitalized costs of computers and equipment include \$623,582 of computers and equipment donated to the University. The book value of these contributed items is \$501,115.

The future UMA minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2000, were as follows:

<u>Year Ending June 30,</u>	
2001	\$ 792,980
2002	560,865
2003	338,893
2004	75,044
2005	<u>8,862</u>
Total minimum lease payments	1,776,644
Less interest	<u>144,762</u>
Present value of minimum lease payment	<u>\$ 1,631,882</u>

On January 9, 1995, UMA used a portion of the proceeds of the Direct Note Obligations to prepay Health Sciences Foundation \$37,000,000 on a non-cancelable lease for Rutledge Tower which expires on June 30, 2018 but will be renewed automatically for successive five year terms following the initial term. As a result of the prepayment, \$13,989,600 was recorded as rental buildings under capital lease, \$2,958,000 was recorded as rental equipment under capital lease and \$20,052,400 was recorded as prepaid rent for the land in UMA's financial records. The prepayment is being amortized using the straight-line method over 29.5 years as rent expense. For the year ended June 30, 2000, amortization was \$679,742. The balance included in prepaid expense was approximately \$15,634,000 at June 30, 2000.

Following is an analysis of the leased property under the capital lease at June 30, 2000:

	<u>Building</u>	<u>Equipment</u>
Capitalized costs	\$ 13,989,600	\$ 2,958,000
Less accumulated depreciation	<u>2,608,231</u>	<u>1,626,900</u>
Total	<u>\$ 11,381,369</u>	<u>\$ 1,331,100</u>

The building and equipment are being depreciated on a straight-line method over 29.5 and 10 years, respectively. Depreciation expense for the year ended June 30, 2000 includes \$770,024 for this lease.

Pharmaceutical Education and Development Foundation leases several pieces of equipment under capital leases with various lessors.

In addition, on February 2, 1998, PEDF entered into a lease agreement to lease an office building and laboratory and production facility. The facility was constructed in accordance with the requirements of PEDF and the term of the lease commenced on January 1, 1999. The lease term is for a period of 25 years. Lease payments are based on an estimated project cost of \$6,333,520 and are anticipated to be \$56,667 per month for a ten year period and increased by 2.5% each year thereafter.

In November, 1999, both parties agreed the facility was not available for delivery and occupancy as provided for by the lease. To remedy the situation, the lessor agreed to proceed with a contract, in the amount of \$1,100,000, in accordance with plans and specifications prepared by the lessor and approved by PEDF with completion slated for February 28, 2000. Of the \$1,100,000, PEDF has agreed to repay \$400,000 at the rate of 8.5% and amortized over 23 years. The loan will be repaid in equal monthly payments of \$3,307 beginning January 1, 2001. The February date was not met and according to the amendment, lease payments were deferred until the construction was completed. The amendment states all amounts due under the lease for the period beginning September 1, 1999 and continuing through February 28, 2000 would accrue but not be immediately due and payable. This \$340,000 would be treated as a loan to PEDF repayable, without additional interest, only out of the first available operating profit earned by PEDF's manufacturing facility. The deferred rent of \$340,000 is included in other liabilities and is reported as a principal reduction of \$12,958 and interest expense of \$327,042. The lease amendment further provided that if the construction were not completed by February 28, 2000, the

THE MEDICAL UNIVERSITY OF SOUTH CAROLINA

contractor would be responsible for the monthly payments of \$56,667 until the building was completed. The rent payable by the contractor is reported as other income of \$ 198,333 and principal payments on capital lease of \$ 7,879 and interest payment of \$ 190,454. PEDF was required to make partial payments for the months of June and July, 2000, and began paying the full monthly amount on August 1, 2000. If at any time within one year of acceptance of the facility, it is discovered that the facility is not "validatable" all amounts due and payable under the lease from the date of such discovery will be deferred. Deferment will continue until a "validatable" condition is achieved. In addition, the Health Sciences Foundation, the guarantor for PEDF, received the right to purchase the facility for \$8.0 million at any time during lease years 2 through 10 (January 1, 2000 through December 31, 2009).

Rent payments under this lease, with a cost of the building not to exceed \$6,500,000, are guaranteed by the Health Sciences Foundation in an amount not to exceed \$4,000,000 against an anticipated annual lease amount of approximately \$700,000 per year, not to exceed 10 years from the commencement of the lease.

The following is an analysis of the leased assets at June 30, 2000:

Building	\$ 6,333,520
Equipment	<u>849,557</u>
Total capitalized costs	7,183,077
Less accumulated depreciation	<u>434,754</u>
Total	<u>\$ 6,748,323</u>

Depreciation on capitalized leased assets was \$272,978 for the year ended June 30, 2000.

The future minimum lease payments are as follows:

<u>Year Ending June 30,</u>	<u>Equipment</u>	<u>New Facility</u>	<u>Total</u>
2001	\$ 228,922	\$ 680,000	\$ 908,922
2002	176,541	680,000	856,541
2003	108,803	680,000	788,803
2004	79,366	680,000	759,366
2005	--	680,000	680,000
Thereafter	--	<u>15,091,204</u>	<u>15,091,204</u>
Total minimum lease payments	593,632	18,491,204	19,084,836
Less interest	<u>86,400</u>	<u>12,250,534</u>	<u>12,336,934</u>
Present value of minimum lease payments	<u>\$ 507,232</u>	<u>\$ 6,240,670</u>	<u>\$ 6,747,902</u>

Operating Leases

The University's noncancelable operating leases having remaining terms of more than one year expire in various fiscal years from 2001 through 2005. The University also has certain short-term operating leases for real property and equipment. Certain operating leases provide for renewal options for periods from one to five years at their fair rental value at the time of renewal. In the normal course of business, operating leases are generally renewed or replaced by other leases. Operating leases are generally payable on a monthly basis. The University is responsible for maintenance on most leased property. Total operating lease expenditures in fiscal year 2000 were approximately \$6,210,000 for real property and \$1,855,000 for equipment. The University reports these costs in the applicable current funds functional expenditure categories. As discussed in Note 11, the University had certain operating leases with related parties in the current fiscal year.

Charleston Memorial Hospital is deemed to lease existing real property facilities from Charleston County and will lease related future renovations and additions. These lease payments are equivalent to the County's debt service to fund the renovations and additions to the facility. These payments during fiscal year 2000 were approximately \$1,655,000 and payments approximating \$1,655,000 will be required for each of the fiscal years 2001 through 2006. Based on the terms of the agreement and economic use of the facilities, lease expense determined on the straight-line basis was recorded in the amount of approximately \$1,716,000 for fiscal year 2000. Included in prepaid items at June 30, 2000, is \$303,835 which represents the difference between these expenses and payment amounts.

CMH entered into a five year sublease on November 10, 1998 with Specialty Hospital of South Carolina, Inc. (the Tenant) to lease up to 59 beds for \$10,000 per year. The Tenant initially leased 37 beds and exercised an option to increase to 59 beds effective August, 1999. The lease provides for rent increases equal to the greater of:

1. the percentage increase in hospital market basket index factor for the immediately preceding calendar year; or
2. five percent.

THE MEDICAL UNIVERSITY OF SOUTH CAROLINA

Certain terms of the sublease allow the Tenant to increase or decrease the number of beds during the year. The lease also provides that the Tenant can renew the sublease for two additional two year terms. The future minimum sublease rental to be received assuming the rental of 59 beds as of June 30, 2000, is as follows:

<u>Year Ending June 30,</u>	
2001	\$ 637,569
2002	669,447
2003	702,920
2004	<u>298,812</u>
Total	<u>\$ 2,308,748</u>

The Tenant received three months free rent for the period December, 1998 to February, 1999. The \$92,500 rent attributable to this period is being amortized over the five year lease period. As of June 30, 2000, \$63,208 is recorded on the balance sheet as other accounts receivable.

University Medical Associates leases certain land, buildings and equipment under leases expiring at various dates from 2001 through 2024 including those facilities referred to in Note 11. The minimum lease payments under UMA noncancelable leases having remaining terms in excess of one year are as follows:

<u>Year Ending June 30,</u>	
2001	\$ 5,143,222
2002	4,671,005
2003	3,276,799
2004	2,451,827
2005	1,584,124
Thereafter	<u>6,499,489</u>
Total	<u>\$ 23,626,466</u>

In April, 1998, PEDF entered into a lease commitment agreement to lease equipment with an estimated cost of up to \$1,500,000 over a 60 month term at an interest rate to be fixed at the date of delivery and final acceptance of the equipment. The interest rate will be indexed to like term U.S. Treasuries with a 2.98% spread. Based on the Treasury interest rate in effect at the date of the commitment agreement, monthly lease payments are anticipated to be approximately \$24,109. The equipment will consist of production and laboratory equipment to be acquired for use in the PEDF's new production facility. The lease is anticipated to be classified as an operating lease. At June 30, 2000, purchase orders totaling \$1,398,419 had been issued by the lessor with funds advanced to vendors of \$1,396,488. Included in the \$1,398,419 is \$777,167 on leases and \$621,251 not on lease accruing interest at 9.5%. Since this lease is considered to be an operating lease, no amount of liability has been recorded on the financial statements through June 30, 2000. During the fiscal year ended June 30, 2000, expenses were paid to BB&T Leasing totaled \$163,303, of which \$127,236 is lease expense and \$36,067 is interest expense related to funds advanced to vendors during the year.

In February, 2000, PEDF entered into a lease commitment agreement with WASCO Funding Corp. whereby PEDF may lease equipment with a cost of up to \$500,000. The term of the lease is 60 months with the interest rate fixed at the date of delivery and final acceptance of the equipment. The interest rate will be indexed to like term U.S. Treasuries with a spread of 2.75%. The equipment purchased will be used for production in PEDF's new facility. At June 30, 2000, purchase orders totaling \$359,995 had been issued by the lessor with funds advanced to vendors of \$192,920. Since this lease is considered to be an operating lease, no amount of liability has been recorded on the financial statements through June 30, 2000. During the fiscal year ended June 30, 2000, lease expenses were paid to WASCO in the amount of \$23,438 related to funds advanced to vendors during the year.

PEDF also leases other types of equipment for various terms under long term, noncancelable operating lease agreements. The leases expire at various dates through 2005.

PEDF had total rent expense under operating leases of \$189,426 for fiscal year 2000.

The anticipated minimum lease payments are as follows:

<u>Year Ending June 30,</u>	<u>Equipment</u>
2001	\$ 285,118
2002	282,586
2003	282,586
2004	280,720
2005	<u>135,143</u>
Total	<u>\$ 1,266,153</u>

THE MEDICAL UNIVERSITY OF SOUTH CAROLINA

10. PLANT FUNDS

The University combines the three plant funds subgroups for reporting purposes. The plant funds balance sheet and statement of changes in fund balances by subgroup are as follows:

BALANCE SHEET

	UNEXPENDED	RETIREMENT OF INDEBTEDNESS	INVESTMENT IN PLANT	TOTAL
ASSETS				
Cash and cash equivalents	\$ 52,316,012	\$ 31,900,186	\$ -	\$ 84,216,198
Accrued interest receivable	711,485	195,004	-	906,489
Capital improvement bond proceeds receivable	15,278,339	-	-	15,278,339
Due from Medical University Facilities Corporation	421,517	-	-	421,517
Land and land improvements	-	-	21,704,202	21,704,202
Buildings and leasehold improvements	-	-	382,453,928	382,453,928
Furniture and equipment	-	-	161,085,116	161,085,116
Computer software	-	-	1,176,822	1,176,822
Library books, periodicals, and other materials	-	-	15,037,883	15,037,883
Accumulated amortization	-	-	(235,364)	(235,364)
Construction in progress	20,993,410	-	-	20,993,410
Total assets	<u>\$ 89,720,763</u>	<u>\$ 32,095,190</u>	<u>\$ 581,222,587</u>	<u>\$ 703,038,540</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 2,232,218	\$ -	\$ -	\$ 2,232,218
Retainages payable	693,873	-	-	693,873
Accrued interest payable	-	4,058,911	-	4,058,911
Due to other funds	-	-	-	-
Notes payable	-	-	8,699,044	8,699,044
Bonds payable	83,730,000	-	65,530,000	149,260,000
Obligations under capital leases	-	-	956,391	956,391
Capital lease payable to Medical University Facilities Corporation	-	-	26,091,690	26,091,690
Total liabilities	<u>86,656,091</u>	<u>4,058,911</u>	<u>101,277,125</u>	<u>191,992,127</u>
Fund balances:				
Restricted	3,064,672	18,679,964	-	21,744,636
Unrestricted:				
Designated for capital projects	-	4,532,512	-	4,532,512
Undesignated	-	4,823,803	-	4,823,803
Net investment in plant	-	-	479,945,462	479,945,462
Total fund balances	<u>3,064,672</u>	<u>28,036,279</u>	<u>479,945,462</u>	<u>511,046,413</u>
Total liabilities and fund balances	<u>\$ 89,720,763</u>	<u>\$ 32,095,190</u>	<u>\$ 581,222,587</u>	<u>\$ 703,038,540</u>

THE MEDICAL UNIVERSITY OF SOUTH CAROLINA

STATEMENT OF CHANGES IN FUND BALANCES

	<u>UNEXPENDED</u>	<u>RETIREMENT OF INDEBTEDNESS</u>	<u>INVESTMENT IN PLANT</u>	<u>TOTAL</u>
Revenues and other additions:				
Student tuition and fees - restricted	\$ -	\$ 1,453,165	\$ -	\$ 1,453,165
Federal grants and contracts - restricted	42,472	-	-	42,472
Interest and investment income - restricted	1,950,299	1,035,445	-	2,985,744
Expended for plant facilities	-	-	50,160,637	50,160,637
Donated assets	-	-	679,530	679,530
Interest capitalized on construction	839,851	-	-	839,851
Capital improvement bond proceeds	10,000,000	-	-	10,000,000
Retirement of indebtedness - bonds	175,000	-	8,885,000	9,060,000
Retirement of indebtedness - notes	-	-	2,177,607	2,177,607
Retirement of indebtedness - capital leases	-	-	1,407,978	1,407,978
Total revenues and other additions	<u>13,007,622</u>	<u>2,488,610</u>	<u>63,310,752</u>	<u>78,806,984</u>
Expenditures and other deductions:				
Expended for plant facilities	34,388,911	-	-	34,388,911
Retirement of indebtedness	-	9,060,000	-	9,060,000
Interest on indebtedness - bonds	-	7,342,193	-	7,342,193
Amortization of software	-	-	235,364	235,364
Disposal of plant facilities	-	-	4,355,755	4,355,755
Note payable and capital lease additions	-	-	5,295,438	5,295,438
Administrative costs	-	10,965	-	10,965
Bond issue costs	942,354	-	-	942,354
Noncapitalized expenditures	<u>71,728</u>	<u>-</u>	<u>-</u>	<u>71,728</u>
Total expenditures and other deductions	<u>35,402,993</u>	<u>16,413,158</u>	<u>9,886,557</u>	<u>61,702,708</u>
Transfers among funds - additions/(deductions)				
Mandatory:				
Principal and interest	-	12,368,490	-	12,368,490
Nonmandatory:				
Transfers from unrestricted current funds	1,120,265	-	-	1,120,265
Transfers between plant funds	(6,393,961)	6,393,961	-	-
Transfers of debt representing plant additions	<u>1,702,646</u>	<u>-</u>	<u>(1,702,646)</u>	<u>-</u>
Total transfers	<u>(3,571,050)</u>	<u>18,762,451</u>	<u>(1,702,646)</u>	<u>13,488,755</u>
Net increase/(decrease) for the year	(25,966,421)	4,837,903	51,721,549	30,593,031
Fund balances at beginning of year, as restated	<u>29,031,093</u>	<u>23,198,376</u>	<u>428,223,913</u>	<u>480,453,382</u>
Fund balances at end of year	<u>\$ 3,064,672</u>	<u>\$ 28,036,279</u>	<u>\$ 479,945,462</u>	<u>\$ 511,046,413</u>

11. RELATED PARTIES

Health Sciences Foundation

The Health Sciences Foundation (HSF), a separately chartered legal entity whose activities are related to those of the University, exists primarily to provide financial assistance and other support to the University and its educational program. The financial statements of the Health Sciences Foundation are audited by independent auditors retained by the foundation. The activities of HSF are not included in the University's financial statements. However, the University's statements include transactions between the University and the foundation.

In conjunction with its implementation of GASB Statement 14, management annually reviews its relationship with the Health Sciences Foundation. The University excluded HSF from the reporting entity because it is not financially accountable for the foundation. As part of its affiliated organizations project, the GASB is currently studying other circumstances under which organizations that do not meet the financial accountability criteria would be included in the financial reporting entity. Depending on the outcome of that project and other future GASB pronouncements, the Health Sciences Foundation may become a component unit of the University and part of the financial reporting entity.

The Health Sciences Foundation was incorporated in July, 1966, under the laws of the State of South Carolina as an educational, charitable, eleemosynary foundation to promote education, research, clinical, and other facilities and programs of the University. In the event of dissolution of HSF, its assets would be transferred to the University and applied to any function germane to the University's activities.

The University provides office space and pays certain administrative costs for HSF. The total value of these items was approximately \$225,000 in fiscal year 2000. The University was not reimbursed for these costs. HSF provided support to the University for general and department expenditures which totaled \$6,025,066 in fiscal year 2000. This revenue is recorded as gifts in the current funds. In addition, HSF had transactions which totaled \$464,201 for equipment donated to the University. The University also has a deposit from HSF of \$50,000 included in other liabilities of the unrestricted current funds.

HSF leased eight parcels of property, known as 176 Ashley Avenue Guest House, 17 Ehrhardt, 20 Ehrhardt Street, 28 Ehrhardt Street, Franke Warehouse, 51 Bee Street, 56 Courtenay Drive, and the Bee-Cannon Street property, to the University. The total rental payments paid to HSF were \$616,165 in fiscal year 2000.

For the year ended June 30, 2000, HSF transactions with the University's component units include rental income from UMA for the Rutledge/Ashley properties, 30 Bee Street, and Rutledge Tower. Total rental income on these properties was \$1,149,920 for the year ended June 30, 2000. As explained in Note 26, in April 1996, HSF's board passed a resolution to transfer to the University the St. Francis Hospital facilities (Rutledge Tower) which HSF acquired in 1993. As a result, HSF recorded a contribution payable to the University of \$17,852,400.

The assets, liabilities and financial operations of HSF, as summarized on the following schedule are not included in the accompanying financial statements of the University.

THE MEDICAL UNIVERSITY OF SOUTH CAROLINA

STATEMENT OF FINANCIAL POSITION

ASSETS

Cash and cash equivalents	\$ 288,410
Receivables	11,320,298
Property and equipment	29,842,316
Investments	130,600,816
Property held for sale	1,775,075
Deposit held by MUSC	50,000
Other assets	<u>1,437,152</u>
Total Assets	<u>\$ 175,314,067</u>

LIABILITIES AND NET ASSETS

Liabilities:

Accounts and annuities payable	\$ 1,888,326
Long term debt	6,750,559
Contributions payable - MUSC	17,852,400
Unearned income	<u>16,194,569</u>
Total liabilities	<u>42,685,854</u>

Net Assets:

Unrestricted	39,910,784
Temporarily restricted	66,453,087
Permanently restricted	<u>26,264,342</u>
Total net assets	<u>132,628,213</u>

Total Liabilities and Net Assets	<u>\$ 175,314,067</u>
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STATEMENT OF ACTIVITIES

Revenues, gains and other support:

Contributions	\$ 14,877,315
Investment and gains	14,057,884
Rental income	1,776,416
Special events revenues and other	<u>523,195</u>
Total revenues, gains and other support	<u>31,234,810</u>

Expenses:

Grants and general support to the University	6,025,066
Equipment donated to the University	464,201
Other disbursements	<u>4,673,708</u>
Total expenses	<u>11,162,975</u>

Change in net assets	20,071,835
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Net assets at beginning of year	<u>112,556,378</u>
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Net assets at end of year	<u>\$ 132,628,213</u>
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Related Party Transactions with Component Units

Revenues of University Medical Associates are available to pay operating expenses of UMA and support activities of the academic departments at The Medical University of South Carolina including faculty and staff compensation. Any excess may be paid to the University or retained within UMA for future use. For the year ended June 30, 2000, pursuant to this practice, UMA paid \$3,310,360 to the University which is reported in the unrestricted current funds as a nonmandatory transfer. UMA also donated to the University equipment valued at \$2,121,725.

UMA and the University have entered into an agreement whereby UMA will be reimbursed an annual fixed amount for providing an environment for ambulatory and community based primary care clinical education and research for University residents and students. UMA shall be entitled to reimbursement for, but not limited to: expenses for facilities necessary to perform this agreement, personnel costs, insurance, necessary supplies and equipment, and necessary capital improvements. The parties agree each year to an estimated budget, which is net of supplies billing and other revenue, to be paid ratably over the year to UMA as reimbursement of its costs. For the fiscal year ending June 30, 2000, the University paid UMA \$46,000,000 which is included in instruction expenditures.

UMA billed for outpatient Pharmacy charges until the University's related billing system became operational in fiscal year 1999. UMA charged the University a 12.5% overhead charge applied to Pharmacy collections. Under this agreement,

THE MEDICAL UNIVERSITY OF SOUTH CAROLINA

UMA paid the University \$64,573 which consists of total collections of \$73,798 less an overhead charge of \$9,225 for fiscal year 2000. This agreement terminated in 1999. The payments received by UMA during fiscal year 2000 are from collections on outstanding receivables from prior years.

Under the Ambulatory and Community Based Primary Care Clinical Education agreement, UMA earns revenue on certain supplies billing performed by the University. The University remits the billings to UMA and withholds a 10% collection fee on these amounts. The University paid UMA \$685,586 which consists of total charges of \$870,585 less a collection fee of \$76,176 and an overhead charge of \$108,823. This agreement terminated in 1999. The payments received by UMA during fiscal year 2000 are from collections on outstanding receivables from prior years.

The University and UMA entered into an agreement to provide a digestive disease center for patients with digestive disease. The agreement is renewed annually and can be terminated upon 180 days written notice. UMA has responsibility for the management of the daily operations of the center. The University reimburses UMA for certain direct costs of the operation. During fiscal year 2000, UMA, under this agreement, received from the University \$261,608 which is included in UMA's other income.

Carolina Health Management Services, Inc., a blended component unit of UMA, has a managed care contract and reimbursement agreement with the University. CHMS performs services regarding managed care operations for the University and its affiliates, including arranging for contracts with various third party payers. The agreement is renewed annually and can be terminated by either party by 30 days prior to the expiration of the term in effect. All costs from these operations of the managed care services are shared between UMA (40%), CHMS (10%) and the University (50%). The University's share of the cost for fiscal year 2000 was \$101,094.

The University and Charleston Memorial Hospital entered into an agreement with UMA effective June 27, 1994, to provide urgent care services to University and Charleston Memorial Hospital patients. This agreement is renewed annually and may be terminated by any party upon 120 days written notice. UMA has responsibility for the management of the daily operations of the urgent care services. Any net gain/loss from operations between UMA and the University is reported by the University. The University reported a net loss from operations of \$1,449,531 which is reported in Medical Center expenditures. Under the CMH portion of the agreement, UMA is paid a 12% billing fee based on net patient revenues and is reimbursed for all cost in excess of revenues. Total payments to UMA from CMH under this agreement were approximately \$1,474,600 for the year ended June 30, 2000. Amounts under these agreements are reported in net clinical service revenues by UMA.

The University amounts due (to) from UMA as of June 30, 2000, are as follows:

	Current Funds		Agency Funds	Total
	Unrestricted	Restricted		
Underpayment of collections under Ambulatory Care				
Clinic Operational Services agreement	\$ 76,443	\$ -	\$ -	\$ 76,443
Parking	427,397	-	-	427,397
Development Evaluation Center Contract	43,823	-	-	43,823
Other	244,361	(3,000)	-	(241,361)
Deposit held for purchases of supplies	-	-	(962,862)	(962,862)
Settlement cost	(4,852,083)	-	-	(4,852,083)
Urgent Care Agreement	(134,809)	-	-	(134,809)
Digestive Disease Contract	(40,815)	-	-	(40,815)
Grant salary reimbursement	-	(39,000)	-	(39,000)
Rehabilitation Services project	-	(227,234)	-	(227,234)
Due (to) from UMA	<u>\$ (4,235,683)</u>	<u>\$ (269,234)</u>	<u>\$ (962,862)</u>	<u>\$ (5,467,779)</u>

The Authority advanced funds totaling \$2,916,667 to UMA on June 30, 2000. This advance will be offset against the ambulatory care agreement effective July 1, 2000.

During the year, the University paid UMA \$3,826,763 in rent for office space and various other properties. These amounts are reported by the University in the unrestricted current funds under operation and maintenance of plant expenditures.

On January 9, 1995, UMA prepaid the Health Sciences Foundation (HSF) \$37 million on a noncancelable lease. The original lease dated July 1, 1993, was considered an operating lease. This original lease term expired June 30, 2018, with automatic successive five year renewals. On January 9, 1995, the lease was amended to provide that the lease term would expire on the later of June 30, 2024, or the date on which all principal and premiums, if any, and interest on the Direct Note Obligations are paid (see Notes 6 and 9).

THE MEDICAL UNIVERSITY OF SOUTH CAROLINA

As a result of these changes, as of January 9, 1995, \$13,989,600 was recorded as rental buildings under capital lease, \$2,958,000 was recorded as rental equipment under capital lease, and \$20,052,400 was recorded as prepaid rent. Accumulated depreciation on the building and equipment at June 30, 2000, was \$4,235,131. The prepaid rent of \$20,052,400 represents the portion of the prepaid \$37 million lease payment that is attributable to the value of the land for the lease property. The prepayment is being written off using the straight-line method over 29.5 years. The amount amortized for the year ended June 30, 2000, was \$679,742.

UMA also paid CMH \$1,255,580 during the year for rent and operating expenses of the McClennan-Banks Ambulatory Care center. These expenses were paid by UMA for the center as a direct expense of the Ambulatory Care Clinical Educational agreement and recorded as miscellaneous other revenues of CMH. UMA also received approximately \$111,000 from Charleston Memorial for physician services and paid CMH approximately \$65,200 for various services.

As of June 30, 2000, UMA is due \$270,767 from CMH under the Urgent Care agreement.

Effective July 1, 1990, the University and Charleston County Council entered into a management agreement whereby the University assumed responsibility for Charleston Memorial Hospital. The agreement requires that the University continue to provide all services being provided as of the date of the agreement and the County to construct psychiatric, obstetric, and pediatric units and a clinic for outpatient services. The management agreement also requires the County to pay an annual fee to the University of approximately \$3,800,000 (modified to reflect changes in the consumer price index). Commencing July 1, 1998, the County did not pay any appropriation to CMH. All expenses of the operation and maintenance of Charleston Memorial Hospital are the responsibility of the University.

All real property is reported on Charleston County books as they hold title to it, and is deemed leased by the University acting through Charleston Memorial Hospital, as described in Note 9. The management agreement also granted the University the option to purchase the physical facilities of Charleston Memorial Hospital from Charleston County upon giving twelve months' notice to do so.

Under the management agreement, the University is entitled to all earnings and is responsible for all deficits of Charleston Memorial Hospital. The University recognized management support costs of \$7,270,303 during the current year which is included in the unrestricted current funds as a Medical Center expenditure. In prior years, the earnings were included in the Academic Division. CMH owes the University \$3,817,658 for cumulative management fees and expenses as of June 30, 2000.

Charleston Memorial Hospital has significant transactions with the University and with Charleston County. Services received at no cost from the University include certain ancillary procedures performed on Charleston Memorial Hospital patients, as well as the staffing of certain areas by medical and administrative personnel. These services totaled \$1,376,130 in fiscal year 2000 and are recorded as Medical Center expenditures of the unrestricted current fund and operating expense of Charleston Memorial Hospital. Charleston Memorial Hospital records contributed services revenue to equal these expenses. The value of the services is estimated using actual billings for the ancillary procedures plus the actual personnel costs prorated by CMH effort.

Additionally, Charleston Memorial Hospital paid \$3,326,714 to the University for dietary services, miscellaneous services, residents and attendings, and supplies for the fiscal year 2000. Charleston Memorial Hospital records these services as hospital expenditures. The University recorded the revenue from Charleston Memorial Hospital in the unrestricted current funds as Other Academic Division Revenues of \$1,646,035, and Other Medical Center Revenues of \$1,680,679.

Charleston Memorial Hospital also received from the University \$1,858,573 for rent and other expenses incurred at the McClennan-Banks Ambulatory Care Center. CMH recorded the revenue as miscellaneous other revenue and the University recorded it as Medical Center expenditures in the unrestricted current account.

In fiscal year 2000, the University paid CMH \$250,827 representing the book value of various pieces of CMH equipment it was using.

The University has an agreement with Pharmaceutical Education and Development Foundation to provide office space, laboratory facilities, and certain administrative services to PEDF. The value of these services is calculated using actual personnel costs and expenditures prorated by PEDF effort plus fair market value of similar rental space. Under this agreement, PEDF recorded rent expense and a payable to the University in the amount of \$241,182 for these services for the year ended June 30, 2000. The University has recorded the \$241,182 in other Academic Division revenues. Under the agreement, PEDF must provide funds for the University's College of Pharmacy faculty and student support, and other needs in such amounts as may be determined from time to time by PEDF's board. Such amounts must adequately reimburse the University for space, equipment and services provided by the College of Pharmacy or PEDF must

reimburse the University. The agreement provides for other terms dealing with personnel compensation, accounting procedures, legal matters, indemnification and other business matters.

On November 1, 1997, the University and PEDF entered into a educational support agreement whereby PEDF will perform various services in support of the College of Pharmacy's graduate and professional degree programs. In consideration of the services provided by PEDF, the University agrees in addition to providing space, utilities and infrastructure as well as certain state owned equipment to PEDF, to pay PEDF for instructional and educational opportunities in an amount of \$210,000 per year. The agreement is for an initial term of one year and shall be automatically renewed for like one year terms unless either party cancels at least 90 days prior to the end of the current contract period. The contract amount is subject to adjustment on an annual basis. For the year ended June 30, 2000, PEDF recognized other income of \$210,000 related to this contract.

PEDF owes the University \$285,776 for rent which is included in the current funds and \$31,297 for miscellaneous reimbursements and supplies which are recorded in the agency funds as of June 30, 2000.

Effective October 1, 1995, PEDF has contracted with UMA for the provision of adequate scientific and administrative personnel on an as needed basis, the administration of payroll for UMA provided personnel including all required employment and income tax withholding, and the provision and administration of employee benefits for UMA provided personnel. PEDF will reimburse UMA for all personnel costs at a rate of 101.5% of the amount of all funds expended by UMA in payment of salaries and benefits to UMA provided personnel. The reimbursement totaled \$2,125,178 for the year ending June 30, 2000, and is included in UMA's other operating revenue. As of June 30, 2000, UMA is due \$2,370,077 from PEDF under this agreement. This debt is non-interest bearing and has no required payment schedule. Although due on demand, it is not likely the debt will be called on within the next twelve months. Provisions of this debt call for voting board seats and conversion to equity rights.

Also, by resolution of its board, the Health Sciences Foundation has committed to lend funds on an interest free basis to PEDF to finance capital improvements and provide working capital. By resolution, HSF is to also generally guarantee PEDF's payment of rent up to \$4,000,000 under the lease for the new facility (see Note 9). PEDF anticipates a new for-profit entity will be spun off from PEDF to carry on its operations. When the for-profit entity is formed HSF will take an equity position of conversion of debt and in recognition of guaranty made. There are also provisions at HSF's option to require the for-profit entity to buy back the equity from HSF in the future.

MUSC Foundation for Research Development and the University have an affiliation agreement which outlines activities requiring MUSC Board approval, conflict of interest, dissolution, insurance, and indemnity. Additionally, the agreement requires an annual accounting of the State property, personnel, and resources used directly by MFRD, as well as, reimbursement or demonstration that adequate in kind reimbursement through provision of funds or services to the University has been made. The value of the State resources utilized by MFRD is estimated to be \$124,274 and is included in MFRD's expenses. The Foundation reimbursed the University this amount during the year and the University recorded the reimbursement as other revenue in the unrestricted current fund. The value is calculated using actual personnel costs prorated by MFRD effort plus an overhead allocation. MFRD also paid \$158,937 to sublease its office facilities at Cannon Park Place from the University. The University recorded the revenue in the unrestricted current funds as other academic division revenues.

MFRD entered into a contract with the University to provide management services for research activities and intellectual property activities. The contracts provide for annual payments of \$520,000. For the fiscal year ended June 30, 2000, MFRD has recognized income of \$520,000 from these contracts and the University reported this amount in the unrestricted current funds under institutional support expenditures.

MFRD also entered into a contract with the University to provide administrative and management services for multi-site clinical trials. The contract provides for annual payments of \$750,000. The agreement period is from January 1, 1998, to December 31, 2000, which can be renewed in additional terms of one year. For the fiscal year ended June 30, 2000, MFRD has recognized income of \$750,000 from this contract and the University reported this amount in the unrestricted current funds under research expenditures.

A contract was executed during the fiscal year ended June 30, 1998 between MFRD and the University for support activities and fund management for the MUSC Healthy South Carolina Initiative Program. Specific responsibilities of the Foundation include providing subawards to support the Health South Carolina Initiative Program, pursuing intellectual properties and service opportunities emanating from the research, and reporting health benefits inured to South Carolinians.

MFRD recorded the corpus of the Healthy South Carolina funds as a liability to the University and the University has this amount recorded as due from MFRD. These funds have been subawarded for research and other activities performed by

THE MEDICAL UNIVERSITY OF SOUTH CAROLINA

University faculty members. Funds are returned to the University as expenditures are incurred by the University for these subawards.

As of June 30, 2000, MFRD owes the University the following amounts which are recorded in the restricted current fund:

Healthy South Carolina Initiative Program	\$ 5,275,232
Interest income	148,878
Grants and contracts	<u>143,638</u>
Total	<u>\$ 5,567,748</u>

Also, MFRD owes the University \$36,296 for miscellaneous sales and services recorded in the unrestricted current fund and owes the University \$7,767 for miscellaneous reimbursements and supplies, which is recorded in the agency funds at June 30, 2000. The University owes MFRD \$212,061 for grant costs which are recorded in the restricted current fund.

The University has assigned the rights to intellectual property owned by the University to MFRD. MFRD incurs the cost of patent prosecution and commercialization of the intellectual property. Legal fees and other costs associated with patent prosecution are expensed as incurred as the future economic benefits are uncertain and not measurable. MFRD entered into five separate licensing agreements with privately-held start-up companies. MFRD purchased securities by contributing the rights in intellectual property assigned to MFRD by the University. As the securities in these corporations are not publicly traded and the economic value of the intellectual property is not measurable, values have not been recorded in the financial statements.

At June 30, 2000, the University had a receivable of \$421,517 from MUFC for proceeds of the lease revenue bonds for completion of the Strom Thurmond Biomedical Research Center.

Transactions with State Entities

The University has significant transactions with the State of South Carolina and various State agencies. Services received at no cost from State agencies include maintenance of certain summary accounting records and lump sum disbursement processing by the Comptroller General; banking, investment and bond trustee functions from the State Treasurer; and legal services from the Attorney General. Other services received at no cost from the various offices of the State Budget and Control Board include pension plans administration, insurance plans administration, audit services, grant services, personnel management, assistance in the preparation of the State budget, review and approval of certain budget amendments, procurement services, and other centralized functions.

The University had financial transactions with various State agencies during the fiscal year. Significant payments were made to divisions of the State Budget and Control Board for pension and insurance plans employee and employer contributions, vehicle rental, insurance coverage, telephone, interagency mail and data processing services. Significant payments were also made for unemployment and workers' compensation coverage for employees to the Employment Security Commission and State Accident Fund. The University provides printing services to the College of Charleston and medical services to clients of various State agencies for a fee. The fiscal year 2000 revenue and expenditure amounts applicable to these related party transactions are not readily available.

12. ACCOUNTS RECEIVABLE ALLOWANCES

The patient accounts receivable allowances at June 30, 2000, were comprised of the following amounts.

	Medical Center	Charleston Memorial Hospital	University Medical Associates
Contractual adjustments	\$ 22,963,639	\$ 1,509,106	\$ 22,349,749
Uncollectibles	<u>15,106,712</u>	<u>1,294,481</u>	<u>3,384,371</u>
Total	<u>\$ 38,070,351</u>	<u>\$ 2,803,587</u>	<u>\$ 25,734,120</u>

No allowances for uncollectibles were deemed necessary at June 30, 2000, for the University's student and other accounts receivable.

13. DEFERRED COMPENSATION PLANS

Several optional deferred compensation plans are available to State employees and employees of its political subdivisions. Certain employees of the University have elected to participate. The multiple-employer plans, created under Internal Revenue Code Sections 457, 401(k), and 403(b), are administered by third parties and are not included in the Comprehensive Annual Financial Report of the State of South Carolina. Compensation deferred under the plans is placed in trust for the contributing employee. The State has no liability for losses under the plans. Employees may withdraw the current value of their contributions when they terminate State employment. Employees may also withdraw contributions prior to termination if they meet requirements specified by the applicable plan.

Certain employees have elected to participate in a Section 457 plan that was established by the University. The plan is administered by various unrelated financial institutions. Compensation deferred under the plan is placed in trust for the contributing employee.

The State appropriated funds from unspent Fiscal Year 1998-1999 general fund appropriations above the ten percent set aside for contributions to 401(k) accounts of eligible state employees whose salaries are funded from State General Fund appropriations. In addition, the 2000 Appropriation Act required agencies to match certain 401(k) contributions by employees whose salaries are funded from its other applicable revenue sources. The appropriated 401(k) match is limited to \$300. To be eligible an employee must meet the following eligibility requirements:

1. The employee must be a permanent full-time State employee for 24 continuous months as of July 1, 1999 and be employed on the date of distribution, and
2. The employee must have established a 401(k) account with annual contributions equal to the match (this requirement is not required for employees earning less than \$20,000).

In April, 2000, the University made contributions from State appropriations and other applicable funding sources of \$118 in total to the 401(k) account of each eligible State employee, for a total of \$193,756 for all of the University's employees.

14. PENSION PLANS

The majority of employees of the University are covered by a retirement plan through the South Carolina Retirement System (SCRS), a cost-sharing multiple-employer defined benefit pension plan administered by the Retirement Division of the State Budget and Control Board, a public employee retirement system. Generally all State employees are required to participate in and contribute to the SCRS as a condition of employment unless exempted by law as provided in section 9-1-480 of the South Carolina Code of Laws. This plan provides retirement annuity benefits as well as disability, cost of living adjustment, death, and group-life insurance benefits to eligible employees and retirees.

The Retirement Division maintains four independent defined benefit plans and issues its own publicly available Comprehensive Annual Financial Report (CAFR) which includes financial statements and required supplementary information. A copy of the separately issued CAFR may be obtained by writing to the Retirement Division, 202 Arbor Lake Drive, Columbia, South Carolina, 29223. Furthermore, the Division and the four pension plans are included in the CAFR of the State of South Carolina.

Under the SCRS, employees are eligible for a full service retirement annuity upon reaching age 65 or completion of 30 years credited service regardless of age. The benefit formula for full benefits effective since July 1, 1989, for the SCRS is 1.82 percent of an employee's average final compensation multiplied by the number of years of credited service. Early retirement options with reduced benefits are available as early as age 55. Employees are vested for a deferred annuity after five years service and qualify for a survivor's benefit upon completion of 15 years credited service. Disability annuity benefits are payable to employees totally and permanently disabled provided they have a minimum of five years credited service. A group-life insurance benefit equal to an employee's annual rate of compensation is payable upon the death of an active employee with a minimum of one year of credited service.

Since July 1, 1988, employees participating in the SCRS have been required to contribute 6 percent of all compensation. Effective July 1, 1999, the employer contribution rate 9.50 percent which included a 1.95 percent surcharge to fund retiree health and dental insurance coverage. Effective January 1, 2000 the surcharge to fund retiree health and dental insurance coverage was increased to 2.16 percent to cover the cost of providing such services. The University's actual contributions to the SCRS for the years ending June 30, 2000, 1999, and 1998 were approximately \$ 16,440,000, \$15,960,000, and \$15,060,000, respectively, and equaled the required contributions of 7.55 percent (excluding the surcharge) for each year. Also, the University paid employer group-life insurance contributions of approximately \$326,000 in the current fiscal year at the rate of .15 percent of compensation.

The South Carolina Police Officers Retirement System (PORS) is a cost-sharing multiple-employer defined benefit public employee retirement plan. Generally, all full-time employees whose principal duties are the preservation of public order or the protection or prevention and control of property destruction by fire are required to participate in and contribute to the System as a condition of employment. This plan provides annuity benefits as well as disability and group-life insurance benefits to eligible employees and retirees. In addition, participating employers in the PORS contribute to the accidental death fund which provides annuity benefits to beneficiaries of police officers and firemen killed in the actual performance of their duties. These benefits are independent of any other retirement benefits available to the beneficiary.

Employees covered under PORS are eligible for a monthly pension payable at age 55 with a minimum of five years service or 25 years credited service regardless of age. In addition, employees who have five years of credited service prior to age 55, can retire yet defer receipt of benefits until they reach age 55. A member is vested for a deferred annuity with five years service. The benefit formula for full benefits effective since July 1, 1989, for the PORS is 2.14 percent of the employee's average final salary multiplied by the number of years of credited service. Disability annuity benefits and the group-life insurance benefits for PORS members are similar to those for SCRS participants. Accidental death benefits provide a monthly pension of 50 percent of the member's budgeted compensation at the time of death.

Since July 1, 1988, employees participating in the PORS have been required to contribute 6.5 percent of all compensation. Effective July 1, 1999, the employer contribution rate became 12.25 percent which, for the SCRS, included the 1.95 percent surcharge. Effective January 1, 2000, the surcharge to fund retiree health and dental insurance coverage was increased to 2.16 percent to cover the cost of providing such services. The University's actual contributions to the PORS for the years ending June 30, 2000, 1999, and 1998 were approximately \$ 275,000, \$328,000, and \$344,000, respectively, and equaled the required contributions of 10.3 percent (excluding the surcharge) for each year. Also, the University paid employer group-life insurance contributions of approximately \$5,300 and accidental death insurance contributions of approximately \$5,300 in the current fiscal year for PORS participants. The rate for each of these insurance benefits is 0.20 percent of compensation.

The amounts paid by the University for pension, group-life insurance, and accidental death benefits are reported as employer contributions expenditures within the applicable current funds' functional expenditure categories to which the related salaries are charged.

Article X, Section 16 of the South Carolina Constitution requires that all State-operated retirement systems be funded on a sound actuarial basis. Title 9 of the South Carolina Code of Laws of 1976, as amended, prescribes requirements relating to membership, benefits, and employee/employer contributions for each retirement plan. Any changes require the approval of the South Carolina legislature. Employee and employer contribution rates to SCRS and PORS are actuarially determined. The surcharges to fund retiree health and dental insurance are not part of the actuarially established rates. Annual benefits, payable monthly for life, are based on length of service and on average final compensation (an annualized average of the employee's highest 12 consecutive quarters of compensation).

The Systems do not make separate measurements of assets and pension liabilities for individual employers. Under Title 9 of the South Carolina Code of Laws, the University's liability under the plans is limited to the amount of contributions (stated as a percentage of covered payroll) established by the State Budget and Control Board. Therefore, the University's liability under the pension plans is limited to the contribution requirements for the applicable year from amounts appropriated therefore in the South Carolina Appropriation Act and amounts from other applicable revenue sources. Accordingly, the University recognizes no contingent liability for unfunded costs associated with participation in the plans.

At retirement, employees participating in the SCRS or PORS may receive additional service credit (at a rate of 20 days equals one month of service) for up to 90 days for accumulated unused sick leave.

Certain State employees may elect to participate in the Optional Retirement Program (ORP), a defined contribution plan. The ORP was established in 1987, under Title 9, Chapter 17, of the South Carolina Code of Laws. The ORP provides retirement and death benefits through the purchase of individual fixed or variable annuity contracts which are issued to, and become the property of, the participants. The State assumes no liability for this plan other than for payment of contributions to designated insurance companies.

ORP participation is limited to faculty and administrative staff of the State's four-year higher education institutions who meet all eligibility requirements for membership in the SCRS. To elect participation in the ORP, eligible employees must irrevocably waive SCRS membership within their first ninety days of employment.

Under State law, contributions to the ORP are required at the same rates as for the SCRS, 7.55 percent plus the retiree surcharge of 1.95 percent from July 1, 1999 to December 31, 1999 and 2.16 percent from January 1, 2000 to June 30, 2000 from the employer in fiscal year 2000.

Certain of the University's employees have elected to be covered under optional retirement plans. For the fiscal year, total contribution requirements to the ORP were approximately \$3,580,000 (excluding the surcharge) from the University as employer and approximately \$2,850,000 from its employees as plan members. In addition, the University paid approximately \$72,200 for group-life insurance coverage for these employees. All amounts were remitted to the Retirement Division of the State Budget and Control Board for distribution to the respective annuity policy providers. The obligation for payment of benefits resides with the insurance companies.

An Act passed in the last General Assembly session, which had not been signed by the Governor as of June 30, 2000, will amend Chapter 1, Title 9, of the 1976 Code of Laws, relating to the South Carolina Retirement System, effective July 1, 2000, with some provisions effective January 1, 2001. The amendment will enact the Teacher and Employee Retention Incentive Program, reduce from thirty to twenty-eight the years of creditable service required to retire at any age without penalty and make other changes to the SCRS.

The majority of employees of Charleston Memorial Hospital are covered by the South Carolina Retirement System (SCRS). Since July 1, 1988, CMH employees participating in the SCRS have been required to contribute 6 percent of all compensation. The employer contribution rate is 6.7 percent. CMH's actual contributions to the SCRS for the years ended June 30, 2000, 1999, and 1998, were approximately \$574,000, \$573,000, and \$578,000, respectively, and equaled the required contribution of 6.7 percent for each year. CMH paid employer group life insurance premiums of approximately \$12,800 for fiscal year 2000 at the rate of .15 percent of compensation. The amounts paid by CMH for pension, group-life benefits, and accidental death benefits are reported as employer contribution expenses under general and administrative expenses.

University Medical Associates provides a defined contribution plan covering all employees. The plan provides for contributions by UMA in such amounts as the Board of Directors may annually determine. The plan does not permit participant contributions except for rollover contributions. UMA's contributions are allocated based upon a three tier percentage determined by a participant's compensation. The plan's allocations are based upon the following: 8% of a participant's compensation up to \$50,000, 14% of a participant's compensation from \$50,001 to \$100,000, and 30% of participant's earnings between \$100,001 and \$160,000. Participants become fully vested in their accounts after five years of credited service. Total contributions to this plan totaled approximately \$8,997,000 in fiscal year 2000. Copies of the separately issued financial statements of the plan are available from the management of UMA.

MUSC Foundation for Research Development adopted a 401(k) plan effective November 1, 1997. Generally, the plan covers all regular employees who are at least 21 years of age. MFRD's contribution is 8 percent of each employee's salary up to a salary of \$50,000 and an additional 6% on salary ranging from \$50,001 to \$100,000. The contribution for the year ended June 30, 2000, was \$79,419.

15. POSTEMPLOYMENT AND OTHER EMPLOYEE BENEFITS

In accordance with the South Carolina Code of Laws and the annual Appropriation Act, the State of South Carolina provides certain health care, dental, and life insurance benefits to certain active and retired State employees and certain surviving dependents of retirees. All permanent full-time and certain permanent part-time employees of the University are eligible to receive these benefits. The State provides post-employment health and dental benefits to employees who retire from State service or who terminated with at least 20 years of State service who meet one or more of the eligibility requirements, such as age, length of service, and hire date. Generally, those who retire must have at least 10 years of retirement service credit to qualify for these State-funded benefits. Benefits are effective at date of retirement when the employee is eligible for retirement benefits.

These benefits are provided through annual appropriations by the General Assembly to the University for its active employees and to the State Budget and Control Board for all participating State retirees except the portions funded through the pension surcharge and provided from other applicable fund sources of the University for its active employees who are not funded by State General Fund appropriations. The State finances health and dental plan benefits on a pay-as-you-go basis. Approximately 20,100 State retirees met these eligibility requirements as of June 30, 1999.

The University recorded employer contributions expenditures within the applicable functional expenditure categories for these insurance benefits for active employees in the approximate amount of \$18,460,000 for the year ended June 30, 2000. As discussed in Note 14, the University paid approximately \$5,500,000 applicable to the 1.95 percent surcharge for July 1, 1999 to December 31, 1999, and the 2.16 percent surcharge for January 1, 2000 to June 30, 2000, included with the employer contributions for retirement benefits. These amounts were remitted to the South Carolina Retirement Systems for distribution to the Office of Insurance Services for retiree health and dental insurance benefits. Information regarding the cost of insurance benefits applicable to University retirees is not available. By State law, the University has

no liability for retirement benefits. Accordingly, the cost of providing these benefits for retirees is not included in the accompanying financial statements. In addition, the State General Assembly periodically directs the Retirement Systems to pay supplemental (cost of living) increases to retirees. Such increases are primarily funded from Systems' earnings; however, a portion of the required amount is appropriated from the State General Fund annually for the SCRS and PORS benefits.

Charleston Memorial Hospital provides health and dental benefits for most employees through a program of self-insurance. CMH sets the premiums for dependent coverage based on claims experience. CMH is responsible for any excess of claims over employee contributions. To insure against catastrophic claims, CMH has obtained reinsurance. The specific and aggregate stop loss agreement provides for claims in excess of \$40,000 and are subject to a \$2,500,000 maximum specific stop loss payment per employee lifetime and \$1,000,000 per policy year in the aggregate. CMH has accrued \$134,000 as of June 30, 2000, for incurred but not reported claims and claims payable which is included in other liabilities.

University Medical Associates has established an employee medical benefit plan to self-insure employees. UMA is liable for \$100,000 per individual employee or dependent per plan year. Amounts exceeding this are covered by stop-loss insurance. UMA records an estimated liability for these claims. The claims liability is based on estimates of the ultimate cost of reported claims and an estimate for claims incurred but not reported based on historical experience. Claims incurred but not reported and claims payable at June 30, 2000, amounted to \$495,318 which is included in other liabilities.

16. MEDICAID DISPROPORTIONATE SHARE PROGRAM

The Medical Center and Charleston Memorial Hospital transfer matching funds to the State of South Carolina Department of Health and Human Services to allow them to receive Medicaid disproportionate share payments for providing services to a disproportionately high number of low income patients. These payments are in addition to regular Medicaid reimbursement amounts and are paid in block sums to qualifying facilities which have provided initial matching funds. The South Carolina Area Health Education Consortium also made matching funds transfers during the fiscal year ended June 30, 2000, of \$7,927,422. AHEC's match permits the hospitals in the consortium to receive disproportionate share payments which are not included in these financial statements. The AHEC matching funds are included in the instruction expenditures of the current funds. The Medical Center receipts less matching funds are included in unrestricted current funds revenues. Charleston Memorial Hospital includes the receipts and payments in net patient revenues.

	<u>AHEC</u>	<u>MUSC Medical Center</u>	<u>Charleston Memorial Hospital</u>
Disproportionate Share Pool Revenue	\$ —	\$ 62,007,648	\$ 14,638,011
Matching funds transferred	<u>7,927,422</u>	<u>25,151,509</u>	<u>5,996,668</u>
Net revenue	<u>\$ (7,927,422)</u>	<u>\$ 36,856,139</u>	<u>\$ 8,641,343</u>

The Medical Center and Charleston Memorial Hospital do not expect the fiscal year 2001 net amounts to materially change from the fiscal year 2000 amounts.

17. CONTINGENCIES AND LITIGATION

The University and Charleston Memorial Hospital are involved in a number of legal proceedings and claims with various parties which arose in the normal course of business and cover a wide range of matters including medical malpractice. In the opinion of management, the outcome of the legal proceedings and claims is not expected to have a material adverse effect on the financial positions of the entities.

The various federal programs administered by the University for fiscal year 2000 and prior years are subject to examination by the federal grantor agencies. At the present time, amounts, if any, which may be due federal grantors have not been determined but the University believes that any such amounts in the aggregate would not have a material adverse effect on the financial position of the University. Therefore, an estimated loss has not been recorded.

The University and UMA were sued under the False Claims Act in connection with the lawsuit settlement referred to in Note 29. The parties may be liable for unspecified attorneys' fees, costs, and expenses incurred by the plaintiffs in connection with this lawsuit. The case is in discovery stage and the parties are aggressively defending the claim, although they remain willing to negotiate a reasonable settlement offer. The potential outcome or potential recovery or loss remains unknown.

The University and Charleston Memorial Hospital are included in a class action lawsuit that challenges the constitutionality and

administration of the State's Debt Set Off Act. An order was issued in February, 2000, finding that numerous State agencies and political subdivisions had failed to give proper notice prior to setting off debts against the debtor's income tax refunds. An appeal and other proceedings are pending. If the order is upheld, and the debts that have been withheld have to be repaid with interest, the loss could be approximately \$5,000,000 to the University and \$2,200,000 to Charleston Memorial Hospital.

The Pharmaceutical Education and Development Foundation is currently in litigation with its landlord regarding the rights and liabilities of each party under the building lease. Each party has filed a claim against the other and both lawsuits are in their initial stages. It is too early to evaluate the effect on PEDF, however it is management's opinion that the likely outcome of this litigation will not cause a significant adverse effect on PEDF.

18. NONMANDATORY TRANSFERS

Debt service funds become available for transfer because of the maintenance of minimum balances including reserves for payment of debt service as required by bond indentures and law. Tuition, fees, and revenues pledged for debt service when collected remain in the debt service accounts of the retirement of indebtedness plant funds subgroup until they are transferred by the State Treasurer into a general capital improvements funding account. For state institution bonds issued by the State of South Carolina on behalf of the University, the State Treasurer automatically transfers qualified funds. However, for revenue bonds issued by the University, a written request for the transfer of funds in excess of required minimum balances is submitted by the University to the State Treasurer. As needed, monies are transferred from the general capital funding account to specific capital projects accounts. For the most part, institutions are authorized to make transfers for specific projects with notification to the State Treasurer. As applicable for pre-1986 bond issues, the University obtained approval from the State Budget and Control Board for the transfers.

The University reports its general capital funding account in the retirement of indebtedness subgroup and the unexpended balance thereof as unrestricted fund balance. In fiscal year 2000, the University transferred \$400,000 from the general capital projects funding account of the retirement of indebtedness subgroup to the unexpended plant funds subgroup to finance specific capital projects. That transaction is reported as a nonmandatory transfer and the unexpended balances in all such project accounts are reported as restricted fund balances.

During fiscal year 2000, the University recorded interfund transfers and transfers with and between its blended component units, as follows:

<u>From</u>	<u>To</u>	<u>Amount</u>	<u>Purpose</u>
Interfund transfers:			
Restricted current funds	Unrestricted current funds	1,452,178	Excess grant funds on completed projects
Unrestricted current funds	Unexpended plant funds	1,120,265	Funding of construction projects
Retirement of Indebtedness	Unexpended Plant Funds	150,000	Funding of construction projects
Unexpended Plant funds	Retirement of indebtedness	6,005,311	Bond proceeds for debt service
Unexpended Plant funds	Retirement of in debtedness	538,650	Return unused debt service funds
Blended component units:			
University Medical Associates	Unrestricted current funds	3,310,360	Academic support

19. RISK MANAGEMENT

The University and its component units are exposed to various risks of loss and maintain State or commercial insurance coverage for each of those risks except health and dental insurance claims for CMH and UMA which are self-insured. Management believes such coverage is sufficient to preclude any significant uninsured losses for the covered risks. There were no significant reductions in insurance coverage from coverage in the prior year. Settled claims have not exceeded this coverage in any of the past three years. The insurer's promise to pay to or on behalf of the insured for covered economic losses sustained during the policy period in accord with insurance policy and benefit program limits. The University pays insurance premiums to certain other State agencies to cover risks that may occur in normal operations. State management believes it is more economical to manage certain risks internally and set aside assets for claim settlement.

Several State funds accumulate assets and the State itself assumes substantially all risks for the following:

1. Claims of State employees for unemployment compensation benefits (Employment Security Commission);
2. Claims of covered employees for workers' compensation benefits for job-related illnesses or injuries (State Accident Fund);
3. Claims of covered employees for health and dental insurance benefits (Office of Insurance Services); and
4. Claims of covered public employees for long-term disability and group-life insurance benefits (Office of Insurance Services).

Employees elect health coverage through either a health maintenance organization or through the State's self-insured plan. All of the other coverages listed above are through the applicable State self-insured plan except dependent and

optional life premiums are remitted to commercial carriers.

The University and other entities pay premiums to the State's Insurance Reserve Fund (IRF) which issues policies, accumulates assets to cover the risks of loss, and pays claims incurred for covered losses related to the following University assets, activities, and/or events:

1. Theft of, damage to, or destruction of assets;
2. Real property, its contents, and other equipment;
3. Motor vehicles and watercraft (inland marine);
4. Torts;
5. Business interruptions;
6. Natural disasters; and
7. Medical malpractice claims against covered clinics, hospitals, employees, and third- and fourth-year medical students.

The IRF is a self-insurer and purchases reinsurance to obtain certain services and specialized coverage and to limit losses in the areas of property, boiler and machinery, automobile liability, and medical professional liability insurance. Reinsurance permits partial recovery of losses from reinsurers, but the IRF remains primarily liable. The IRF purchases insurance for aircraft and ocean marine coverage. The IRF's rates are determined actuarially. State agencies and other entities are the primary participants in the State's Health and Disability Insurance Fund and in IRF.

The University also purchases a portion of its medical malpractice insurance coverage for healthcare providers through the State's insurance enterprise, the Medical Malpractice Patients' Compensation Fund. The University obtains coverage through a commercial insurer for employee fidelity bond insurance for all employees for losses arising from theft or misappropriation. The University also obtains coverage through a commercial insurer for losses related to aircraft. The University has recorded insurance premium expenditures in the applicable functional expenditure categories of the unrestricted current fund. The University has not transferred the portion of the risk of loss related to insurance policy deductibles and policy limits for all coverages to a State or commercial insurer.

Charleston Memorial Hospital purchases malpractice insurance and general tort liability insurance through the State's Insurance Reserve Fund and insures its equipment through the IRF. CMH obtains coverage through a commercial insurer for employee fidelity bond insurance for losses arising from theft or misappropriation. CMH provides health and dental benefits for most employees through a program of self-insurance. CMH is responsible for any excess of claims over employee contributions. To insure against catastrophic claims, CMH has obtained reinsurance. The specific and aggregate stop loss agreement provides for claims in excess of \$40,000 and is subject to a \$2,500,000 maximum specific stop loss payment per employee's lifetime and \$1,000,000 per policy year in the aggregate. Dental claims are limited to \$1,000 per employee per year. CMH has accrued \$134,000 as of June 30, 2000, for incurred but not reported claims and claims payable.

University Medical Associates pays insurance premiums to certain State agencies to cover risks that may occur in normal operations. This includes claims for employees for unemployment compensation benefits. Commercial insurance covers workers' compensation benefits, long-term disability, theft of assets, damage to property, and torts. The insurer's promise to pay to or on behalf of the insured for covered economic losses sustained during the policy period in accordance with insurance policy and benefit program limits. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

UMA also purchases a portion of its medical malpractice insurance coverage for healthcare providers through the State's insurance enterprise, the Medical Malpractice Patients' Compensation fund and the Joint Underwriters Association. UMA obtains employee fidelity bond insurance coverage through a commercial insurer for all employees for losses arising from theft or misappropriation. UMA insures against malpractice claims under a state maintained insurance fund. The entire premium is paid by the University, with the full cost of physician premiums being reimbursed by UMA. The affiliates are covered by private insurance companies.

UMA has established an employee medical benefit plan to self insure employees which is liable for \$100,000 per individual employee or dependent per plan year. Amounts exceeding this are covered by stop-loss insurance. UMA records an estimated liability for these claims. The claims liability is based on estimates for claims incurred but not reported based on historical experience. Claims incurred but not reported and claims payable at June 30, 2000 amounted to \$495,318.

THE MEDICAL UNIVERSITY OF SOUTH CAROLINA

The following represents the changes in the approximate claims liabilities for self-insured health and dental claims of CMH and UMA for 2000 and 1999:

	<u>CMH</u>	<u>UMA</u>
Liability balance, July 1, 1998	\$ 75,000	\$ 517,308
Claims and changes in estimate	540,935	4,135,937
Claims payments	<u>(540,935)</u>	<u>(4,065,786)</u>
Liability balance, June 30, 1999	75,000	587,459
Claims and changes in estimate	784,403	4,606,175
Claims payments	<u>(725,403)</u>	<u>(4,698,316)</u>
Liability balance, June 30, 2000	<u>\$ 134,000</u>	<u>\$ 495,318</u>

20. RETIREMENT INCENTIVE

Section 59-103-150 of the South Carolina Code of Laws allows the University's Board of Trustees to implement an early retirement plan for its faculty. Two objectives of this law were to help institutions of higher education reallocate resources and effect cost-saving measures. The University implemented such a plan effective January 1, 1990. To be eligible, a person must be a full-time faculty member, at least 55 years old, and have at least 10 years experience at the University in a full-time faculty position. The Board of Trustees has delegated to the President full authority to determine implementation and participation in the Plan. The Plan includes incentive bonus payments for early retirement ranging from 100 percent to 200 percent of a person's final annual salary. No payments were made under this plan in 2000. At June 30, 2000, there was no liability related to retirement incentive.

21. INCOME TAXES

The blended component units of University Medical Associates are entities subject to federal and state income taxes (see Note 1). However, as of June 30, 2000, they had cumulative estimated net operating loss carryovers totaling approximately \$37,700,000 which may be offset against future taxable income of the respective companies.

Approximately \$7,600,000 in 2011, \$8,400,000 in 2012, and \$10,000,000 in 2013 and \$9,500,000 in 2019 and \$2,200,000 in 2020 will expire if unused by those years. No tax benefit has been reported in the 2000 financial statements because management believes that it is probable that the carryforward will expire unused. Accordingly, the tax benefit of the loss carryforward has been offset by a valuation allowance of the same amount. The net operating loss carryover is approximately the same for financial statement and income tax purposes.

22. INTERFUND LIABILITIES AND BORROWINGS

For the most part, the University operates out of one cash account. At fiscal year end, entries are made to report interfund liabilities for deficit cash balances in the State's cash management pool accounts. In addition, during the year, certain interfund borrowings occurred. All of the amounts are payable within one year without interest. At June 30, 2000, the Medical Center owed \$8,737,788 to the Academic Division.

23. ACCOUNTING CHANGES AND PRIOR PERIOD ADJUSTMENTS

Effective July 1, 1999, the University adopted NACUBO Advisory Report 99-1 *Accounting and Reporting for Nongovernmental Grants and Contracts and Gifts*, which modifies the *Financial Accounting and Reporting Manual for Higher Education (FARM)*. In previous years private gifts, grants and contracts were reported together. The two classifications have been separated to provide better disclosure and accountability for resources that are a result of donor activity and resources that are a result of acquiring grants and contracts from nongovernmental entities including individuals. This change did not have an effect on the Net Increase (Decrease) in Fund Balance for the year. Prior year amounts have been reclassified to conform to the current year classification.

Effective July 1, 1999, the University adopted NACUBO Advisory Report 99-6 *Reporting Safety and Security Expenses by Higher Education* which modifies the *Financial Accounting and Reporting Manual for Higher Education (FARM)*. Safety and Security expenses are reported in Operation and Maintenance of Plant. In previous years, the expenses were reported as institutional support. This change did not have an effect on the Net Increase (Decrease) in Fund Balance for the year. Prior year amounts have been reclassified to conform to the current year classification.

Effective July 1, 1999, the University adopted NACUBO Advisory Report 99-7 *Accounting and Reporting for Capitalization of*

THE MEDICAL UNIVERSITY OF SOUTH CAROLINA

Software which modifies the *Financial Accounting and Reporting Manual for Higher Education (FARM)*. This report adopted AICPA Statement of Position 98-1 *Accounting for Costs of Computer Software Developed or Obtained for Internal Use* for public not-for-profit higher education institutions. In previous years computer software costs were reported by functional classification in the current fund. This statement does not require restatement of prior period costs. Note 1 describes the University's policy for capitalizing computer software developed or obtained for internal use.

Prior year comparative totals have been restated to correctly classify certain fiscal year 1999 unrestricted current fund expenditures. Expenditures totaling \$830,977 have been reclassified from institutional support to Medical Center expenditures.

For the year ended June 30, 1999, there was an error in the Medical Center's patient accounts receivable balance. As a result, patient accounts receivable was overstated by \$626,821, accounts receivable allowance was overstated by \$58,796, and Medical Center revenues were overstated by \$568,025. Prior year financial statements have been restated to correct these errors.

For the year ended June 30, 1999, there was an error related to a downpayment made on capital equipment. As a result, expenses were overstated and prepaid items were understated by \$429,845. Prior year financial statements have been restated to correct these errors.

Following is a summary of the effects of the prior period adjustments and reclassifications as of and for the year ended June 30, 1999:

	1999		
	<u>As Previously Reported</u>	<u>Restatement Adjustment</u>	<u>As Restated</u>
Balance sheet:			
Accounts receivable:			
Patients	\$ 165,134,322	\$(626,821)	\$164,507,501
Less allowances	(65,284,149)	58,796	(65,225,353)
Prepaid items	20,617,293	429,845	21,047,138
Total assets	1,020,239,819	(138,180)	1,020,101,639
Fund balances, unrestricted, undesignated	97,942,908	(138,180)	97,804,728
Total fund equity	610,370,818	(138,180)	610,232,638
Total liabilities and fund equity	1,020,239,819	(138,180)	1,020,101,639
The Medical University of South Carolina:			
Statement of Changes in Fund Balances:			
Unrestricted current funds revenues	613,389,066	(568,025)	612,821,041
Total revenues and other additions	740,760,104	(568,025)	740,192,079
Educational and general expenditures	317,141,712	(830,977)	316,310,735
Medical Center expenditures	399,186,769	401,132	399,587,901
Total expenditures and other deductions	861,602,907	(429,845)	861,173,062
Net increase (decrease) for the year	(118,088,113)	(138,180)	(118,226,293)
Fund equity at end of year	605,323,826	(138,180)	605,185,646
Statement of Current Funds Revenues, Expenditures, and Other Changes:			
Private gifts, grants, and contracts	25,166,372	(25,166,372)	-
Nongovernmental grants and contracts	-	17,517,139	17,517,139
Gifts	-	7,649,233	7,649,233
Sales and services of Medical Center:			
Net patient service revenue	359,285,607	(568,025)	358,717,582
Total current revenues	671,914,508	(568,025)	671,346,483
Educational and general expenditures:			
Institutional support	23,427,971	(1,409,181)	22,018,790
Operation and maintenance of plant	16,350,147	578,204	16,928,351
Total educational and general expenditures	317,141,712	(830,977)	316,310,735
Total educational and general	317,263,387	(830,977)	316,432,410
Medical Center expenditures	399,186,769	401,132	399,587,901
Total Medical Center	411,964,849	401,132	412,365,981
Total expenditures and mandatory transfers	731,528,006	(429,845)	731,098,161
Net increase (decrease) in fund balance	(76,752,443)	(138,180)	(76,890,623)

24. FUND EQUITY

The components of fund balance of the University's unrestricted current funds at June 30, 2000, are as follows:

Academic excluding auxiliary enterprises	\$ 9,486,128
Auxiliary enterprises	2,670,572
Medical Center	<u>40,881,366</u>
Total	<u>\$ 53,038,066</u>

The components of fund balance of the University's restricted current funds at June 30, 2000, are as follows:

Research	\$ 11,072,547
Scholarships and student aid	183,719
Restricted for college departments and other purposes	<u>5,267,158</u>
Total	<u>\$ 16,523,424</u>

The components of fund balance of the University's endowment and similar funds at June 30, 2000, are as follows:

Endowment - restricted	\$ 874,094
Quasi-endowment - restricted	<u>41,477</u>
Total	<u>\$ 915,571</u>

For the governmental component units, appropriated retained earnings are amounts allocated for specified uses in accordance with the entity's bylaws and by authorization of its board of directors. Generally, reserved retained earnings are amounts related to legally restricted assets required to be held and/or used as specified in debt indentures and resolutions.

The reserved retained earnings of Charleston Memorial Hospital represent the net assets at the time of the signing of the management agreement which are not available for use by the University. Management has developed and implemented plans to reduce expenditures. Approximately 140 full time positions were eliminated during the second half of the fiscal year ended June 30, 2000 and an additional 37 positions have been eliminated since June 30, 2000 through the middle of October. Further efforts have been undertaken to integrate various CMH functions, processes and responsibilities into the Medical Center of the University. The Medical Center is required to fund any loss from operations.

UMA has incurred losses in the last several years that are directly related to the primary care operations (blended component units) that were acquired in 1995. Management has been monitoring these losses and they have developed a budget significantly reducing operating expenses, they have reduced the number of employees and they began receiving money through an educational agreement with MUSC to help fund primary care operations during the year ended June 30, 2000. Additionally, during the year ended June 30, 2000, UMA refunded certain bond obligations and reissued them as tax exempt bonds, which will decrease interest expense significantly. Operating results for primary care operations improved significantly during the year compared to the prior year and management expects the above factors to continue to improve operating results in the future.

The reserved portion of the retained earnings of Medical University Facilities Corporation is restricted for payment of debt service on the Certificates of Participation and the Lease Revenue Bonds under the related covenants. The unappropriated retained earnings deficit results from the manner in which the capital lease on The Strom Thurmond Biomedical Research Center and the related Lease Revenue Bonds were structured. Because of timing differences, MUFC had an unappropriated retained earnings deficit of \$786,744. As lease payments are received from the University, the deficit will be eliminated.

Since its inception, the Pharmaceutical Education and Development Foundation has received financial support from other nonprofit organizations and such support has mitigated the effects of operating losses incurred during PEDF's startup period. PEDF management and investors expect PEDF to continue operating in a negative cash flow environment during fiscal year 2001. The strategy to overcome the cash flow shortage is threefold. First, Health Sciences Foundation has made available \$1,500,000 in additional funding for fiscal year 2001 to fund the negative cash flow in the interim while the following strategies progress. Second, PEDF will continue its aggressive action plan to complete validation of the new facility. Completion of validation is expected in mid September, 2000. Third, management will continue its strategies to significantly increase revenues and leverage the additional capacity provided by the new facility. Cost containment programs and efficiency improvements will continue.

Temporarily restricted net assets of MUSC Foundation for Research Development are available for the conduct of research.

25. GIFTS

Gifts include resources donated to the University for unrestricted or restricted institutional purposes except those gifts received as additions to endowment funds which are recorded in other additions. Gifts are non-exchange transactions.

26. PLEDGE

Health Sciences Foundation acquired the Rutledge Tower (formally the St. Francis facilities) in 1993 and these properties are leased to University Medical Associates. During April, 1996, HSF's board of directors passed a resolution to transfer the title on the St. Francis Hospital and associated facilities to the University at the end of the lease term which is the later of (1) June 30, 2024, or (2) the date on which all principal of and premium, if any, and interest on the direct note obligations has been paid. This was considered a contribution by HSF, and was recorded by HSF as a contribution payable and contribution expense in 1996 at the value of the land, \$17,852,400. The buildings and equipment do not have a residual value at the end of the lease.

The pledge has not been recorded by the University because the net realizable value is not readily determinable and because of the uncertainties created by the fact that the transfer will not be made until the end of the lease term.

27. COMMITMENTS

During the year ended June 30, 2000, the MUSC Foundation for Research Development entered into contractual agreements related to program activities. Subcontracts between MFRD and the University, as well as various other universities, hospitals, and service providers have been executed for personnel and other resources required to accomplish the work scope of prime agreements between MFRD and external sponsors. These subcontracts may be terminated upon termination of the prime contract.

On January 11, 1999, MFRD entered into a contract with Guynes Design, Inc. for construction and installation of a hypertension/diabetes clinical environment in the Union Heights Clinic, a project sponsored by the University's Healthy South Carolina Initiative Program. As of June 30, 2000, the remaining liability for the \$225,000 contract was \$90,000, which is payable upon completion of the installation.

Consultancy agreements related to further research and development of ribozyme gene therapy sponsored by Hexal, Inc. are additional liabilities of MFRD. The agreements provide for consultancy payment to five researchers during the period beginning December 18, 1998, through September 30, 2000, for investigation, identification, and examination of research activities of interest and suitable to Hexal, Inc. and the University. The remaining contractual liability as of June 30, 2000 is \$43,200.

28. SUBSEQUENT EVENTS AND OTHER MATTERS

All assets, liabilities, and fund balance attributable to the Medical Center were transferred to the Medical University Hospital Authority as of July 1, 2000. A summary of the amounts transferred is as follows:

ASSETS	
Cash and cash equivalents	\$ 16,624,160
Accounts receivable:	
Patients	102,536,142
Less Allowances	(38,070,351)
Medicare and Champus cost reimbursements, net	183,205
Other	83,173
Accrued interest receivable	126,691
Inventories	10,999,852
Due from Charleston Memorial Hospital	3,205,399
Prepaid items	893,735
Total assets	<u>\$ 96,582,006</u>

LIABILITIES AND FUND BALANCES

THE MEDICAL UNIVERSITY OF SOUTH CAROLINA

Liabilities:	
Accounts payable	\$ 17,064,917
Accrued payroll and related liabilities	4,632,630
Accrued leave and related liabilities	11,561,063
Accrued interest payable	231,087
Due to other funds	8,737,788
Due to University Medical Associates	3,986,789
Other liabilities	245,788
Notes payable	<u>9,240,578</u>
Total liabilities	55,700,640
Fund balances	<u>40,881,366</u>
Total liabilities and fund balances	<u>\$ 96,582,006</u>

The following assets and liabilities of the plant fund are attributable to the Medical Center and were transferred to the Authority as of July 1, 2000.

ASSETS	
Cash and cash equivalents	\$ 62,727,771
Accrued interest receivable	588,146
Land and land improvements	3,376,718
Buildings and leasehold improvements	148,024,495
Furniture and equipment	99,054,296
Computer software	1,176,822
Construction in progress	<u>2,940,091</u>
Total assets	<u>\$ 317,888,339</u>
LIABILITIES AND FUND BALANCES	
Accounts payable	\$ 819,604
Retainages payable	340,121
Accrued interest payable	3,348,929
Notes payable	8,699,043
Bonds payable	109,035,000
Obligations under capital leases	<u>432,414</u>
Total liabilities	122,675,111
Fund balances	<u>195,213,228</u>
Total liabilities and fund balances	<u>\$ 317,888,339</u>

The buildings and leasehold improvements and furniture and equipment will be set up on the Authority's books net of accumulated depreciation of \$130,568,293.

A summary of future lease, bond and note obligations attributable to the Medical Center which will be transferred to the Authority is presented in Notes 6 and 9.

Beginning in fiscal year 2001, the state appropriation for the support of the hospitals and clinics will be redirected to the Department of Health and Human Services (Department) to be used as match funds for the hospital's federal program. Beginning in fiscal year 2001, the Department shall pay to the Authority an amount appropriated for its disproportionate share to the Department in addition to any other funds that are available to the Authority from the Medicaid program inclusive of the disproportionate share for the hospital's federal program.

The Authority will pay the University approximately \$9,140,000 for performing various administrative, accounting, personnel and other services and rental of certain buildings or portions of buildings in fiscal year 2001. Also, the Authority has committed to make a non-mandatory transfer of \$5,500,000 to the University in fiscal year 2001 to support the instruction program.

The Pharmaceutical Education and Development Foundation initiated a review to determine the feasibility of becoming a for-profit corporation and determined it was consistent with the long-term strategy of the business to become a for-profit C-corporation. PEDF has received the approval of the Board of The Medical University of South Carolina, Health Sciences Foundation, and University Medical Associates. Subsequently, PEDF has petitioned the South Carolina Secretary of State for approval to convert.

29. EXTRAORDINARY LOSS

During the year ended June 30, 2000, the University and UMA settled a lawsuit under the False Claims Act and agreed to pay damages. UMA and the University are jointly and severally liable for the total damages. In addition to the settlement for damages, UMA incurred legal expenses and other outside service expenses in defending the claim. Management considers the loss to be extraordinary because the settlement and related expenses are unusual in nature and are not expected to occur again in the foreseeable future. The University nor UMA admitted to any wrongdoing. A settlement was reached to mitigate legal expenses and other costs associated with defending their actions.

THE MEDICAL UNIVERSITY OF SOUTH CAROLINA

SCHEDULE 1

SCHEDULE OF UNRESTRICTED CURRENT FUNDS ASSETS, LIABILITIES, AND FUND BALANCES

(COLLEGE AND UNIVERSITY BASIS OF ACCOUNTING)

June 30, 2000

	Academic Division	Medical Center	Total
ASSETS			
Cash and cash equivalents	\$ 30,127,518	\$ 16,624,160	\$ 46,751,678
Accounts receivable:			
Patients	-	102,536,142	102,536,142
Less allowances	-	(38,070,351)	(38,070,351)
Medicare and Champus cost reimbursements, net	-	183,205	183,205
Students	1,557,328	-	1,557,328
Other	1,265,570	83,173	1,348,743
Accrued interest receivable	321	126,691	127,012
Inventories	44,066	10,999,852	11,043,918
Due from other funds	8,737,788	-	8,737,788
Due from Charleston Memorial Hospital	612,259	3,205,399	3,817,658
Due from Pharmaceutical Education and Development Foundation	285,776	-	285,776
Due from MUSC Foundation for Research Development	36,296	-	36,296
Prepaid items	1,978,069	893,735	2,871,804
	<u>\$ 44,644,991</u>	<u>\$ 96,582,006</u>	<u>\$ 141,226,997</u>
Total assets			
	<u>\$ 44,644,991</u>	<u>\$ 96,582,006</u>	<u>\$ 141,226,997</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 4,268,732	\$ 17,064,917	\$ 21,333,649
Accrued payroll and related liabilities	5,777,776	4,632,630	10,410,406
Accrued leave and related liabilities	19,457,601	11,561,063	31,018,664
Accrued interest payable	-	231,087	231,087
Deferred revenues	1,563,874	-	1,563,874
Due to other funds	-	8,737,788	8,737,788
Due to University Medical Associates	248,894	3,986,789	4,235,683
Other liabilities	1,171,414	245,788	1,417,202
Notes payable	-	9,240,578	9,240,578
Total liabilities	<u>32,488,291</u>	<u>55,700,640</u>	<u>88,188,931</u>
Fund balances - undesignated	<u>12,156,700</u>	<u>40,881,366</u>	<u>53,038,066</u>
	<u>\$ 44,644,991</u>	<u>\$ 96,582,006</u>	<u>\$ 141,226,997</u>
Total liabilities and fund balances			
	<u>\$ 44,644,991</u>	<u>\$ 96,582,006</u>	<u>\$ 141,226,997</u>

THE MEDICAL UNIVERSITY OF SOUTH CAROLINA

SCHEDULE 2

SCHEDULE OF UNRESTRICTED CURRENT FUNDS REVENUES, EXPENDITURES, AND OTHER CHANGES

(COLLEGE AND UNIVERSITY BASIS OF ACCOUNTING)

For The Year Ended June 30, 2000

	Academic Division	Medical Center	Total
REVENUES:			
Student tuition and fees	\$ 15,699,760	\$ -	\$ 15,699,760
State appropriations	118,631,364	21,292,776	139,924,140
Federal grants and contracts	13,407,546	-	13,407,546
State grants and contracts	757,444	-	757,444
Local government grants and contracts	223,547	-	223,547
Nongovernmental grants and contracts	4,694,324	-	4,694,324
Gifts	6,429,387	-	6,429,387
Interest and investment income	21,396	1,185,906	1,207,302
Sales and services of educational departments	9,055,642	-	9,055,642
Sales and services of Medical Center:			
Net patient service revenue	-	409,689,692	409,689,692
Disproportionate share revenue, net of match	-	36,856,139	36,856,139
Sales and services of auxiliary enterprises	3,495,916	-	3,495,916
Cafeteria sales	-	2,205,427	2,205,427
Other revenues	10,692,087	2,060,552	12,752,639
Total revenues	<u>183,108,413</u>	<u>473,290,492</u>	<u>656,398,905</u>
EXPENDITURES:			
Academic Division:			
Educational and general expenditures:			
Instruction:			
College of Medicine	44,724,406	-	44,724,406
College of Dental Medicine	8,511,471	-	8,511,471
College of Nursing	3,609,302	-	3,609,302
College of Pharmacy	2,899,053	-	2,899,053
College of Health Professions	7,830,725	-	7,830,725
College of Graduate Studies	239,334	-	239,334
Residents	25,755,903	-	25,755,903
Clinical education	46,000,000	-	46,000,000
Area Health Education Consortium	18,579,349	-	18,579,349
Total instruction expenditures	<u>158,149,543</u>	<u>-</u>	<u>158,149,543</u>
Research	23,158,541	-	23,158,541
Public service	15,121,779	-	15,121,779
Academic support	26,872,303	-	26,872,303
Student services	7,136,614	-	7,136,614
Institutional support	24,213,770	-	24,213,770
Operation and maintenance of plant	14,464,530	-	14,464,530
Scholarships and fellowships	1,170,395	-	1,170,395
Total educational and general expenditures	<u>270,287,475</u>	<u>-</u>	<u>270,287,475</u>

Continued on next page

THE MEDICAL UNIVERSITY OF SOUTH CAROLINA

SCHEDULE 2

**SCHEDULE OF UNRESTRICTED CURRENT FUNDS REVENUES,
EXPENDITURES, AND OTHER CHANGES (Continued)**

(COLLEGE AND UNIVERSITY BASIS OF ACCOUNTING)

For The Year Ended June 30, 2000

	Academic Division	Medical Center	Total
EXPENDITURES: (Continued)			
Mandatory transfers for:			
Loan fund matching grant	77,257	-	77,257
College work study matching grant	39,488	-	39,488
Total educational and general	<u>270,404,220</u>	<u>-</u>	<u>270,404,220</u>
Auxiliary enterprise expenditures	1,855,779	-	1,855,779
Mandatory transfers for principal and interest	706,887	-	706,887
Total auxiliary enterprises	<u>2,562,666</u>	<u>-</u>	<u>2,562,666</u>
 Total Academic Division expenditures and mandatory transfers	<u>272,966,886</u>	<u>-</u>	<u>272,966,886</u>
 Medical Center:			
Nursing services	-	134,704,027	134,704,027
Other professional services	-	141,633,829	141,633,829
General services	-	31,191,171	31,191,171
Fiscal and administrative services	-	94,714,939	94,714,939
Management support to Charleston Memorial Hospital	-	7,270,303	7,270,303
Total Medical Center expenditures	-	409,514,269	409,514,269
Mandatory transfers for principal and interest	-	11,661,603	11,661,603
Total Medical Center expenditures and mandatory transfers	<u>-</u>	<u>421,175,872</u>	<u>421,175,872</u>
 Total revenues over (under) expenditures and mandatory transfers:	<u>(89,858,473)</u>	<u>52,114,620</u>	<u>(37,743,853)</u>
 Other transfers and additions (deductions):			
Nonmandatory transfers to unexpended plant funds	(1,107,715)	(12,550)	(1,120,265)
Net transfers between current funds	1,452,178	-	1,452,178
Transfers between divisions	66,434,694	(66,434,694)	-
Transfers from University Medical Associates	3,310,360	-	3,310,360
Indirect cost recoveries remitted to the State			
General Fund	(107,703)	-	(107,703)
Extraordinary loss	<u>(1,111,700)</u>	<u>(3,740,383)</u>	<u>(4,852,083)</u>
 Total other transfers and additions (deductions)	<u>68,870,114</u>	<u>(70,187,627)</u>	<u>(1,317,513)</u>
 Net (decrease) in fund balances	<u><u>\$ (20,988,359)</u></u>	<u><u>\$ (18,073,007)</u></u>	<u><u>\$ (39,061,366)</u></u>

THE MEDICAL UNIVERSITY OF SOUTH CAROLINA

SCHEDULE 3

**SCHEDULE OF REVENUES AND EXPENSES OF
THE MEDICAL UNIVERSITY OF SOUTH CAROLINA MEDICAL CENTER
AND CHARLESTON MEMORIAL HOSPITAL
(HEALTHCARE PROVIDERS BASIS OF ACCOUNTING)
For The Year Ended June 30, 2000**

	MUSC Medical Center	Charleston Memorial Hospital
Net patient service revenue (Schedule 4)	\$ 446,545,831	\$ 16,478,684
Other operating revenue:		
State appropriations	21,292,776	-
Medical University of South Carolina contributed services	-	1,376,130
Cafeteria sales	2,205,427	-
Other revenues	<u>2,060,552</u>	<u>4,207,816</u>
Total operating revenue	<u>472,104,586</u>	<u>22,062,630</u>
Operating expenses:		
Nursing services	134,656,139	7,332,167
Other professional services	134,335,114	7,554,177
General services	31,191,171	2,759,394
Fiscal and administrative services	50,796,608	5,950,634
Provision for depreciation	17,649,576	641,915
Lease expense	-	1,716,420
Provision for uncollectibles, net of recoveries	43,875,194	3,558,786
Interest expense	<u>6,834,729</u>	<u>-</u>
Total operating expenses	<u>419,338,531</u>	<u>29,513,493</u>
Income (loss) from operations	<u>52,766,055</u>	<u>(7,450,863)</u>
Non-operating revenue/(expenses):		
Interest and investment income	1,185,906	259,368
Contributions income	-	10,973
Loss on disposal of property and equipment	<u>-</u>	<u>(89,781)</u>
Total non-operating revenue	<u>1,185,906</u>	<u>180,560</u>
Income (loss) before management support and extraordinary loss	53,951,961	(7,270,303)
Management support	<u>(7,270,303)</u>	<u>7,270,303</u>
Net income before extraordinary loss	46,681,658	-
Extraordinary loss	<u>(3,740,383)</u>	<u>-</u>
Net income	<u>\$ 42,941,275</u>	<u>\$ -</u>

THE MEDICAL UNIVERSITY OF SOUTH CAROLINA

SCHEDULE 4

SCHEDULE OF NET PATIENT SERVICE REVENUE OF THE MEDICAL UNIVERSITY OF SOUTH CAROLINA MEDICAL CENTER AND CHARLESTON MEMORIAL HOSPITAL

(HEALTHCARE PROVIDERS BASIS OF ACCOUNTING)

For The Year Ended June 30, 2000

	MUSC Medical Center	Charleston Memorial Hospital
Daily patient services:		
Adults and pediatrics	\$ 50,922,572	\$ 3,670,486
Burn and trauma	2,506,801	-
Intensive care	17,387,705	907,875
Coronary care	2,737,540	-
Psychiatric	17,749,102	-
Nurseries	21,622,785	-
Rehabilitation	3,457,232	-
General Clinical Research Unit	384,633	-
	<u>116,768,370</u>	<u>4,578,361</u>
Total daily patient services		
	<u>116,768,370</u>	<u>4,578,361</u>
Other nursing services:		
Operating rooms	46,667,606	43,924
Heart catheterization	17,124,242	-
Recovery rooms	5,201,859	-
Delivery and labor rooms	5,367,530	-
Central services and supply	55,026,006	1,490,778
	<u>129,387,243</u>	<u>1,534,702</u>
Total other nursing services		
	<u>129,387,243</u>	<u>1,534,702</u>
Other professional services:		
Laboratories and laboratory support	76,141,990	3,529,660
Electrocardiology	6,819,678	294,850
Electroencephalography	1,342,634	-
Radiology	63,200,983	1,629,490
Outpatient and family practice clinics	13,356,294	1,678,505
Pharmacy	139,902,352	2,891,582
Anesthesiology	23,380,957	-
Physical/Occupational therapy	7,605,729	265,969
Respiratory therapy	12,234,313	1,265,940
Dialysis	2,030,412	-
Transplants	7,149,830	-
Ambulance/patient transportation	5,574,630	55,990
Other ancillary services	18,954,215	-
	<u>377,694,017</u>	<u>11,611,986</u>
Total other professional services		
	<u>377,694,017</u>	<u>11,611,986</u>
Less charity care	<u>(20,312,971)</u>	<u>(5,903,603)</u>
Total patient services revenue	<u>603,536,659</u>	<u>11,821,446</u>
Additions (deductions) to/from patient service revenue:		
Contractual and administrative adjustments	(193,846,967)	(3,984,105)
Medicaid disproportionate share	62,007,649	14,638,011
Match for federal programs	(25,151,510)	(5,996,668)
	<u>(156,990,828)</u>	<u>4,657,238</u>
Net additions (deductions) to/from patient service revenue		
	<u>(156,990,828)</u>	<u>4,657,238</u>
Net patient service revenue	<u>\$ 446,545,831</u>	<u>\$ 16,478,684</u>

THE MEDICAL UNIVERSITY OF SOUTH CAROLINA

SCHEDULE 5

SCHEDULE OF EXPENSES OF THE MEDICAL UNIVERSITY OF SOUTH CAROLINA MEDICAL CENTER AND CHARLESTON MEMORIAL HOSPITAL

(HEALTHCARE PROVIDERS BASIS OF ACCOUNTING)

For The Year Ended June 30, 2000

	MUSC Medical Center	Charleston Memorial Hospital
Nursing services:		
Administration and education	\$ 7,403,268	\$ 477,143
Medical and surgical	25,032,947	2,314,995
Pediatrics	6,051,393	213,089
Burn and trauma units	4,232,935	-
Intensive care and close observation units	15,972,204	535,613
Coronary care units	1,414,467	-
Psychiatric	15,089,665	-
Nurseries	2,856,288	-
Operating rooms	31,081,621	258,518
Emergency rooms	-	2,611,417
Heart catheterization	7,388,615	-
Recovery rooms	2,053,830	-
Delivery and labor rooms	2,995,427	-
Central services and supply	10,255,125	921,392
Obstetrics	2,828,354	-
General Clinical Research Unit	-	-
Total nursing services	<u>\$ 134,656,139</u>	<u>\$ 7,332,167</u>
Other professional services:		
Laboratories and laboratory support	\$ 23,027,395	\$ 1,345,654
Electrocardiology	2,258,104	102,434
Radiology	11,571,757	783,401
Pharmacy	43,269,399	1,600,988
Anesthesiology	7,014,087	-
Nuclear medicine	1,165,587	-
Respiratory therapy	5,632,515	404,514
Physical medicine	4,775,893	279,112
Dialysis	983,659	-
Pathology	2,338,276	-
Transplant	7,136,984	-
Transportation and other	22,086,429	297,277
Clinics	537,603	-
House staff	-	1,638,494
Professional support services:		
Medical records and quality assurance	2,537,426	922,461
Social services	-	179,842
Total other professional services	<u>\$ 134,335,114</u>	<u>\$ 7,554,177</u>
General services:		
Dietary	\$ 7,449,945	\$ 701,954
Plant operations and maintenance including security	17,615,769	1,301,728
Housekeeping	6,125,457	755,712
Total general services	<u>\$ 31,191,171</u>	<u>\$ 2,759,394</u>
Fiscal and administrative services:		
Admitting	\$ 2,312,358	\$ 925,389
Financial administration, accounting and data processing	22,105,941	677,451
Executive administration	6,994,351	883,444
Communications	683,222	-
Personnel, purchasing and other expenses	18,699,295	3,246,078
Auxiliary enterprise/gift shop	1,441	-
Other	-	218,272
Total fiscal and administrative services	<u>\$ 50,796,608</u>	<u>\$ 5,950,634</u>

**NOTES TO SCHEDULES 3, 4, AND 5 OF
THE MEDICAL UNIVERSITY OF SOUTH CAROLINA MEDICAL CENTER AND CHARLESTON MEMORIAL
HOSPITAL**

(HEALTHCARE PROVIDERS BASIS OF ACCOUNTING)

JUNE 30, 2000

1. Revenue and expenses of The Medical University of South Carolina Medical Center and Charleston Memorial Hospital included on Schedules 3, 4, and 5 are presented in accordance with generally accepted accounting principles as applied to healthcare providers. The Medical Center's operating revenues and expenses presented on this basis differ from the current funds revenues and expenditures as shown on Schedule 2 which is presented in accordance with the college and university basis of accounting. Several significant differences include the following.
 - a. Current funds expenditures included on Schedule 2, but not included in operating expenses on Schedule 3 and 5:
 - Principal payments on capital leases,
 - Expenditures for property, plant and equipment, and
 - Mandatory and other transfers.
 - b. Operating expenses included on Schedule 3, but not included on Schedule 2:
 - Depreciation, and
 - Interest expense on Hospital Facilities Revenue bonds.
2. Depreciation included in this summary has been calculated on a straight-line basis over the estimated useful lives of depreciable property, plant, and equipment.